

AUDITED



PHUMELELA  
LOCAL MUNICIPALITY

**Phumelela Local Municipality (FS195)**

(Registration number FS195)

**Audited Annual financial statements  
for the year ended 30 June 2023**

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## Phumelela Local Municipality (FS195)

(Registration number FS195)

Audited Annual Financial Statements for the year ended 30 June 2023

### General Information

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<b>Legal form of entity</b>	Municipality
<b>Nature of business and principal activities</b>	Local Government  The municipality's operations are governed by the Local Government: Municipal Finance Management Act (MFMA) (Act 56 of 2003), Municipal Structures Act (Act 117 of 1998), Municipal Systems (Act 32 of 2000) and various other acts and regulations.
<b>Municipal Council</b>	
Mayor	Cllr MD Kobeni
Speaker	Cllr. TR Zwane
Councillors	Cllr. KA Sibeko Cllr. VP Mahlaba Cllr. SO Magubane Cllr. TP Tsotetsi Cllr. BA Motsoeneng Cllr. V Thela Cllr. LI Molefe Cllr. NA Mazibuko Cllr. TN Masiteng Cllr. NJ Mokoena Cllr. DA Wessels Cllr. TI Radebe Cllr. JN Klomp Cllr. TJ Qwebu
<b>Grading of local authority</b>	Grade 1
<b>Accounting Officer</b>	Mr NL Maimela (Acting)
<b>Chief Finance Officer (CFO)</b>	Mr NF Ralebenya

1-001710

## **Phumelela Local Municipality (FS195)**

(Registration number FS195)

Audited Annual Financial Statements for the year ended 30 June 2023

### **General Information**

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<b>Registered office</b>	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
<b>Business address</b>	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
<b>Postal address</b>	Private Bag X5 Vrede 9835
<b>Bankers</b>	ABSA
<b>Auditors</b>	Auditor General - South Africa
<b>Municipal demarcation code</b>	FS195

# Phumelela Local Municipality (FS195)

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The reports and statements set out below comprise the audited annual financial statements presented to the provincial legislature:

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### Abbreviations used:

SARS	South African Revenue Service
VAT	Value Added Tax
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
IAS	International Accounting Standards
EPWP	Expanded Public Works Programme
FMG	Financial Management Grant
WSIG	Water Services Infrastructure Grant
MIG	Municipal Infrastructure Grant
LSA	Long Service Awards
PEMA	Post Employment Medical Aid
UIF	Unemployment Insurance Fund
SDL	Skills Development Levy
PAYE	Pay As You Earn

## Phumelela Local Municipality (FS195)

(Registration number FS195)

Audited Annual Financial Statements for the year ended 30 June 2023

### Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the audited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the audited annual financial statements and was given unrestricted access to all financial records and related data.

The audited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The audited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the audited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2024 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

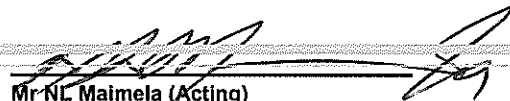
Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's management team, external auditors and other oversight governance structures of Council.

The external auditors are responsible for independently reviewing and reporting on the municipality's audited annual financial statements. The audited annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The accounting officer further certifies that the salaries, allowances and benefits of councillors and payments made to councillors for loss of office, if any, as disclosed in the notes of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The audited annual financial statements set out on page 6-102, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed on its behalf by:

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Mr N.L. Maimela (Acting)  
Accounting Officer  
31 August 2023

## Phumelela Local Municipality (FS195)

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Audited Annual Financial Statements for the year ended 30 June 2023

### Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	10	1,384,168	1,169,877
Receivables from exchange transactions	11&15	25,811,624	13,726,825
Receivables from non-exchange transactions	12&15	4,849,473	3,465,957
VAT receivable	14	46,854,505	43,890,950
Cash and cash equivalents	16	246,119	641,904
		<b>79,145,889</b>	<b>62,895,513</b>
<b>Non-Current Assets</b>			
Investment property	3	13,085,276	13,401,803
Property, plant and equipment	4	777,759,188	795,464,444
Heritage assets	5	5,761	5,761
Other financial assets	6	361,173	392,300
		<b>791,211,398</b>	<b>809,264,308</b>
<b>Total Assets</b>		<b>870,357,287</b>	<b>872,159,821</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	7	417,351,800	398,090,061
Consumer deposits	8	249,437	236,881
Employee benefit obligation	9	434,408	768,313
Unspent conditional grants and receipts	17	13,144,330	10,867,438
		<b>431,179,975</b>	<b>409,962,693</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	9	5,422,703	4,997,251
Provisions	18	83,361,490	77,157,908
		<b>88,784,193</b>	<b>82,155,159</b>
<b>Total Liabilities</b>		<b>519,964,168</b>	<b>492,117,852</b>
<b>Net Assets</b>		<b>350,393,119</b>	<b>380,041,969</b>
Accumulated surplus		350,393,119	380,041,969
<b>Total Net Assets</b>		<b>350,393,119</b>	<b>380,041,969</b>

## Phumelela Local Municipality (FS195)

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Audited Annual Financial Statements for the year ended 30 June 2023

### Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	20	46,937,322	43,338,446
Rental of facilities and equipment	21	715,502	1,067,371
Commissions received		217,467	228,006
Other income	24	1,581,310	3,479,662
Interest received	25	23,802,238	17,128,967
<b>Total revenue from exchange transactions</b>		<b>73,253,839</b>	<b>65,242,452</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	26	17,297,212	16,327,656
Prescribed revenue		28,702,978	-
<b>Transfer revenue</b>			
Government grants & subsidies	27	129,852,108	133,071,662
Services in kind	28	3,682,759	5,942,545
Fines, Penalties and Forfeits	22	53,061	24,174
Interest - Transfer revenue	23	5,080,943	3,381,302
<b>Total revenue from non-exchange transactions</b>		<b>184,669,061</b>	<b>158,747,339</b>
<b>Total revenue</b>	<b>19</b>	<b>257,922,900</b>	<b>223,989,791</b>
<b>Expenditure</b>			
Employee related costs	29	(88,805,479)	(81,566,075)
Remuneration of councillors	30	(7,092,497)	(6,255,706)
Depreciation and amortisation	31	(34,898,108)	(34,065,993)
Finance costs	33	(21,051,416)	(14,358,105)
Debt Impairment	35	(47,177,214)	(42,911,161)
Bulk purchases	37	(36,972,821)	(38,720,625)
General Expenses	36	(42,474,428)	(43,363,431)
<b>Total expenditure</b>		<b>(278,471,963)</b>	<b>(261,241,096)</b>
<b>Operating deficit</b>	<b>39</b>	<b>(20,549,063)</b>	<b>(37,251,305)</b>
Actuarial gains/(losses)	9	434,616	(306,193)
Reversal of impairments/(Impairment loss)	32	(9,748,699)	(1,716,792)
Inventories losses/write-downs		214,291	(1,130,026)
		<b>(9,099,792)</b>	<b>(3,153,011)</b>
<b>Deficit for the year</b>		<b>(29,648,855)</b>	<b>(40,404,316)</b>



## Phumelela Local Municipality (FS195)

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### Statement of Changes in Net Assets

	Accumulated surplus / deficit	Total net assets
Figures in Rand		
Opening balance as previously reported	394,596,087	394,596,087
Adjustments		
Prior year adjustments 44	25,850,198	25,850,198
<b>Balance at 01 July 2021 as restated*</b>	<b>420,446,285</b>	<b>420,446,285</b>
Changes in net assets		
Surplus for the year	(40,404,316)	(40,404,316)
Total changes	(40,404,316)	(40,404,316)
Opening balance as previously reported	352,833,902	352,833,902
Adjustments		
Prior year adjustments 44	27,208,072	27,208,072
<b>Balance at 01 July 2022 as restated*</b>	<b>380,041,974</b>	<b>380,041,974</b>
Changes in net assets		
Surplus for the year	(29,648,855)	(29,648,855)
Total changes	(29,648,855)	(29,648,855)
<b>Balance at 30 June 2023</b>	<b>350,393,119</b>	<b>350,393,119</b>

Note(s)

## Phumelela Local Municipality (FS195)

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### Cash Flow Statement

Figures in Rand	Note(s)	2023	2022
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Taxation		13,017,930	13,055,749
Sale of goods and services		22,409,331	29,481,412
Grants		132,129,000	140,213,000
Interest income		371,765	336,505
		167,928,026	183,086,666
<b>Payments</b>			
Employee costs		(95,371,814)	(87,649,040)
Suppliers		(47,093,169)	(55,896,025)
		(142,464,983)	(143,545,065)
<b>Net cash flows from operating activities</b>	38	<b>25,463,043</b>	<b>39,541,601</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(25,889,955)	(43,182,401)
Proceeds from sale of financial assets		31,127	12,735
<b>Net cash flows from investing activities</b>		<b>(25,858,828)</b>	<b>(43,169,666)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(395,785)</b>	<b>(3,628,065)</b>
Cash and cash equivalents at the beginning of the year		641,904	4,269,969
<b>Cash and cash equivalents at the end of the year</b>	16	<b>246,119</b>	<b>641,904</b>

## Phumelela Local Municipality (FS195)

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### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis		Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>							
<b>Statement of Financial Performance</b>							
<b>Revenue</b>							
Revenue from exchange transactions							
Service charges	57,217,296	7,487,200	64,704,496	46,937,322	(17,767,174)	NOTE 1	
Rental of facilities and equipment	843,944	-	843,944	715,502	(128,442)	NOTE 2	
Commissions received	-	-	-	217,467	217,467	NOTE 3	
Other income - (rollup)	1,892,075	533,730	2,425,805	1,581,310	(844,495)	NOTE 4	
Interest received	22,112,014	8,947,956	31,059,970	23,802,238	(7,257,732)	NOTE 5	
<b>Total revenue from exchange transactions</b>	<b>82,065,329</b>	<b>16,968,886</b>	<b>99,034,215</b>	<b>73,253,839</b>	<b>(25,780,376)</b>		
<b>Revenue from non-exchange transactions</b>							
Taxation revenue							
Property rates	18,427,831	-	18,427,831	17,297,212	(1,130,619)	NOTE 14	
Prescribed revenue	-	-	-	28,702,978	28,702,978		
<b>Transfer revenue</b>							
Government grants & subsidies	136,128,997	(6,000,000)	130,128,997	129,852,108	(276,889)		
Public contributions and donations	15,000,000	-	15,000,000	3,682,759	(11,317,241)	NOTE 6	
Fines, Penalties and Forfeits	-	50,000	50,000	53,061	3,061		
Interest - Transfer revenue	-	-	-	5,080,943	5,080,943	NOTE 7	
<b>Total revenue from non-exchange transactions</b>	<b>169,556,828</b>	<b>(5,950,000)</b>	<b>163,606,828</b>	<b>184,669,061</b>	<b>21,062,233</b>		
<b>Total revenue</b>	<b>251,622,157</b>	<b>11,018,886</b>	<b>262,641,043</b>	<b>257,922,900</b>	<b>(4,718,143)</b>		
<b>Expenditure</b>							
Personnel	(91,041,264)	(27,658)	(91,068,922)	(88,805,479)	2,263,443		
Remuneration of councillors	(6,891,170)	12,855	(6,878,315)	(7,092,497)	(214,182)		
Depreciation and amortisation	(11,960,248)	-	(11,960,248)	(34,898,108)	(22,937,860)	NOTE 8	

## Phumelela Local Municipality (FS195)

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### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
Impairment loss/ Reversal of impairments	-	-	-	(9,748,699)	(9,748,699)	NOTE 9
Finance costs	(3,120,000)	(2,480,631)	(5,600,631)	(21,051,416)	(15,450,785)	NOTE 10
Debt Impairment	(14,185,050)	40,000	(14,145,050)	(47,177,214)	(33,032,164)	NOTE 11
Bulk purchases	(19,586,372)	(12,280,768)	(31,867,140)	(36,972,821)	(5,105,681)	NOTE 12
General Expenses	(50,938,789)	3,694,344	(47,244,445)	(42,474,428)	4,770,017	NOTE 13
<b>Total expenditure</b>	<b>(197,722,893)</b>	<b>(11,041,858)</b>	<b>(208,764,751)</b>	<b>(288,220,662)</b>	<b>(79,455,911)</b>	
<b>Operating deficit</b>	<b>53,899,264</b>	<b>(22,972)</b>	<b>53,876,292</b>	<b>(30,297,762)</b>	<b>(84,174,054)</b>	
Actuarial gains/losses	-	-	-	434,616	434,616	NOTE 15
Inventories losses/write-downs	-	-	-	214,291	214,291	NOTE 16
<b>Deficit before taxation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>648,907</b>	<b>648,907</b>	
<b>Deficit before taxation</b>	<b>53,899,264</b>	<b>(22,972)</b>	<b>53,876,292</b>	<b>(29,648,855)</b>	<b>(83,525,147)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>53,899,264</b>	<b>(22,972)</b>	<b>53,876,292</b>	<b>(29,648,855)</b>	<b>(83,525,147)</b>	

## Phumelela Local Municipality (FS195)

(Registration number FS195)  
Audited Annual Financial Statements for the year ended 30 June 2023

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	2,299,901	(1,130,025)	1,169,876	1,384,168	214,292	NOTE 17
Receivables from exchange transactions	526,438,834	7,985,969	534,424,803	25,811,624	(508,613,179)	NOTE 18
Receivables from non-exchange transactions	-	-	-	4,849,473	4,849,473	NOTE 19
VAT receivable	-	-	-	46,854,505	46,854,505	NOTE 20
Cash and cash equivalents	86,277,004	(126,206,269)	(39,929,265)	246,119	40,175,384	NOTE 21
	<b>615,015,739</b>	<b>(119,350,325)</b>	<b>495,665,414</b>	<b>79,145,889</b>	<b>(416,519,525)</b>	
<b>Non-Current Assets</b>						
Investment property	13,092,879	308,924	13,401,803	13,085,276	(316,527)	NOTE 22
Property, plant and equipment	861,218,809	(40,065,046)	821,153,763	777,759,188	(43,394,575)	NOTE 23
Heritage assets	5,761	-	5,761	5,761	-	
Other financial assets	405,035	(21,489)	383,546	361,173	(22,373)	
	<b>874,722,484</b>	<b>(39,777,611)</b>	<b>834,944,873</b>	<b>791,211,398</b>	<b>(43,733,475)</b>	
<b>Total Assets</b>	<b>1,489,738,223</b>	<b>(159,127,936)</b>	<b>1,330,610,287</b>	<b>870,357,287</b>	<b>(460,253,000)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	354,852,513	61,508,787	416,361,300	417,351,800	990,500	NOTE 24
Consumer deposits	225,324	11,557	236,881	249,437	12,556	
Employee benefit obligation	-	-	-	434,408	434,408	NOTE 25
Unspent conditional grants and receipts	-	-	-	13,144,330	13,144,330	NOTE 26
Provisions	2,520,359	(3,639,783)	(1,119,424)	-	1,119,424	NOTE 27
	<b>357,598,196</b>	<b>57,880,561</b>	<b>415,478,757</b>	<b>431,179,975</b>	<b>15,701,218</b>	

## Phumelela Local Municipality (FS195)

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Audited Annual Financial Statements for the year ended 30 June 2023

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Non-Current Liabilities</b>						
Borrowings	20,000,000	(2,500,000)	17,500,000	-	(17,500,000)	NOTE 28
Employee benefit obligation	-	-	-	5,422,703	5,422,703	NOTE 29
Provisions	42,156,445	39,998,713	82,155,158	83,361,490	1,206,332	
	62,156,445	37,498,713	99,655,158	88,784,193	(10,870,965)	
<b>Total Liabilities</b>	419,754,641	95,379,274	515,133,915	519,964,168	4,830,253	
<b>Net Assets</b>	1,069,983,582	(254,507,210)	815,476,372	350,393,119	(465,083,253)	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1,069,983,582	(254,507,210)	815,476,372	350,393,119	(465,083,253)	

# Phumelela Local Municipality (FS195)

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Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

Figures in Rand	Note(s)	2023	2022
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### 1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

#### 1.1 Basis of preparations

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

These accounting policies are consistent with the previous period.

#### 1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.3 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.4 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

When the final accounts have been closed, any transaction that occurs in respect of a prior period, is considered by management individually and collectively for materiality and the annual financial statements are amended with transactions that are material in amount or by nature.

#### 1.5 Significant judgements and sources of estimation uncertainty

~~In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:~~

## Phumelela Local Municipality (FS195)

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Audited Annual Financial Statements for the year ended 30 June 2023

### Accounting Policies

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#### 1.5 Significant judgements and sources of estimation uncertainty (continued)

##### Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The calculation of the impairment of trade receivables is based on a payment percentage assessment of the individual debtors of the municipality. If an individual debtor has a payment percentage of 100%, impairment is not considered. In instances where the payment percentage is less than 100%, the individual debtor is impaired based on the actual non-payment percentage of the outstanding debt.

##### Allowance for slow moving, damaged and obsolete stock

Management's judgement is required when determining the write down of stock to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the inventory note.

##### Fair value estimation

The carrying value less impairment provision of trade receivables are assumed to approximate their fair values.

##### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell.

##### Provisions

Management's judgement is required when recognising and measuring provisions, contingent liabilities and contingent assets. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

##### Useful lives of infrastructure and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norms or technical advice. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

##### Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

##### Effective interest rate

The municipality used the most relevant contractual risk rate applicable where relevant to each category of assets and liabilities to discount future cash flows. Where none exists the prime interest rate is used to discount future cash flows.

##### Allowance for impairment

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows.



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#### 1.5 Significant judgements and sources of estimation uncertainty (continued)

##### Recognition and Derecognition of Land

In some instances the municipality is not the legal owner or the custodian of land appointed in terms of legislation, but assessed that it controls such land. Key judgements made and assumptions applied to conclude that it controls such land, are as follow (IGRAP 18 par. 41):

- Land controlled by the municipality as a result of a past event and from which future economic benefit or service potential is expected to flow to the entity are recognised by the municipality. Control is evidenced by the municipality's ability to use, or direct others to use, the land and also by the right to direct access to the land and to restrict or deny access of others to the land.

In some instances the municipality is the legal owner, or the custodian of land appointed in terms of legislation, but concludes that it does not control such land. Key judgements made and assumptions applied to conclude that it does not control such land, are as follow (IGRAP 18 par. 41):

- Land not controlled by the municipality as a result of a past event and from which future economic benefit or service potential will not flow to the municipality. The municipality does not have the ability to use or direct others to use the land. The municipality does not have rights to direct access to the land and to restrict or deny access of others to the land. There are various housing scheme land where the municipality is still the legal owner per the deeds office, but where control and substantive rights were not transferred. These land are not recognised by the municipality.

##### Segment reporting

In applying GRAP 18 Segment Reporting, management makes judgements with regard to the identification of reportable segments of the municipality in a manner consistent with the internal reporting provided to Management.

##### Interest on exchange and non exchange assets

In applying GRAP 104, GRAP 9 and GRAP 23 interest earned should be split based on the nature of the source of revenue, i.e., exchange and non-exchange. The financial system calculates interest on total debt outstanding monthly (Total balance due less interest charged not settled). Therefor interest is billed on total due (capital only amount). Management therefor to comply with the split on exchange and non-exchange calculates the total debt outstanding per source of revenue and then uses that to split interest earned between exchange and non-exchange transactions.

#### 1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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### 1.6 Investment property (continued)

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	15 - 16 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.7 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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### 1.7 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Buildings	Straight-line	10- 50 years
Plant and machinery	Straight-line	10 years
Motor vehicles	Straight-line	10 years
Office equipment	Straight-line	10 - 15 years
IT equipment	Straight-line	10 years
Electricity network	Straight-line	20 - 50 years
Roads and stormwater	Straight-line	10 - 80 years
Wastewater network	Straight-line	12 - 50 years
Water network	Straight-line	10 - 80 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 4). The expenditure to repair and maintain property, plant and equipment comprises of goods and services and contracted services. These cost excludes labour cost.

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#### 1.7 Property, plant and equipment (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

#### 1.8 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

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#### 1.9 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 5). Cost incurred to repair and maintain heritage assets comprises of goods and services and contracted services. These costs excludes labour cost.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 5). Heritage Assets under construction are carried at cost. All assets under construction which have exceeded the initial planned completion date by two years are considered to be taking a significantly longer period of time to complete than expected.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Heritage assets are not depreciated, since their long economic life and high residual value means that any depreciation would be immaterial. Heritage assets are considered to have indefinite useful lives.

#### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback). The gain or loss arising from the disposal or retirement of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying value and is recognised in the statement of financial performance

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### 1.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Financial instruments are classified into three categories namely, financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost. The Municipality determines the classification of its financial instruments at initial recognition.

#### *Initial recognition and measurement*

A financial instrument is recognised, when the Municipality becomes a party to the contractual provisions of the instrument, and are initially measured at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added or deducted from the fair value, as appropriate on initial recognition.

#### *Subsequent measurement – financial assets*

Financial assets consist of cash and cash equivalents, deposits, receivables and investments.

A provision for impairment of receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the carrying amount of the provision is recognised in the Statement of Financial Performance. When a receivable is considered uncollectible, it is written off against the provision. Any gains or losses arising from the change in fair value of investments measured at fair value are recognised in the Statement of Financial Performance.

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

Residual interests that do not have a quoted market price in an active market, and the fair value of which cannot be reliably are subsequently measured at cost less any impairment. Impairment is considered when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Any calculated impairment is recognised in the Statement of Financial Performance.

#### *Subsequent measurement – financial liabilities*

Financial liabilities consist of payables, interest bearing loans and bank overdrafts. These liabilities are subsequently measured at amortised cost, using the effective interest rate method. Finance costs are expensed in the Statement of Financial Performance in the period in which they are incurred except where stated otherwise (see accounting policy on borrowing costs).

#### *Fair value measurement considerations*

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Municipality establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs.

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### Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

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#### 1.10 Financial instruments (continued)

##### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants arising from contractual agreements (not statutory grants)	Financial liability measured at amortised cost

#### 1.11 Statutory receivables

##### Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

##### Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, where it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

##### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

##### Subsequent measurement

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#### 1.11 Statutory receivables (continued)

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

#### Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

#### Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

#### Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

#### Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or



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#### 1.11 Statutory receivables (continued)

- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

#### 1.12 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

##### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

##### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

The depreciation policy for depreciable leased assets is consistent with the normal depreciation policy for similar assets.

##### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.



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#### 1.15 Impairment of cash and non-cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash generating assets, are as follows:

- None of the assets are managed with the objective of generating positive cash flows are expected to be significantly higher than the cost of the asset; and
- Although certain services assets generate positive cash flows, these are used for cross subsidisation of services assets that generate negative cash flows.

#### Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when;

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of non-cash-generating assets.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

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#### 1.15 Impairment of cash and non-cash-generating assets (continued)

##### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

##### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

##### Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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##### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

#### 1.16 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

The municipality provides retirement benefits for its employees and councillors. Retirement benefits consist of defined contribution plans and defined-benefit plans.

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#### 1.16 Employee benefits (continued)

Defined-contribution plans are post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against the statement of financial performance in the year in which they become payable.

Defined-benefit plans are post-employment benefit plans other than defined-contribution plans. The defined-benefit funds are actuarially valued based on the projected unit credit method. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities. The contributions and lump sum payments are charged against the statement of financial performance in the year in which they become payable.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as: wages, salaries and social security contributions; short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service; and non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service: as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality provides long-service awards to eligible employees, after completion of every five years' service and the liability thereof is based on an actuarial valuation. The projected unit credit method has been used to value the obligation.

Actuarial gains and losses on the long-term incentives are fully accounted for in the statement of financial performance.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

The municipality provides post-retirement benefits by subsidising the medical healthcare contributions of certain retired staff. According to the rules of the medical aid funds with which the municipality is associated, a member on retirement is entitled to remain a continued member of such medical aid fund, and the municipality will continue to subsidise medical contributions in accordance with the provisions of the employee's employment contract.

The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past, or accrued and future in-service element. The liability is recognised at the fair value of the obligation, together with any adjustments required. The projected unit credit method has been used to value the obligation. Refer to note 20.

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#### 1.16 Employee benefits (continued)

##### Multi-employer plans and/or State plans and/or Composite social security programmes

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan. Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality account for the plan as if it was a defined contribution plan.

##### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service: as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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#### 1.16 Employee benefits (continued)

##### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts: the present value of the defined benefit obligation at the reporting date; minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly; plus any liability that may arise as a result of a minimum funding requirement

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset: current service cost; interest cost; actuarial gains and losses; past service cost; and the effect of any curtailments or settlements.

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

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### 1.16 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects: estimated future salary increases; the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either: those changes were enacted before the reporting date; or past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.17 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.



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#### 1.17 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.15 .

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

#### 1.18 Commitments

Capital commitments disclosed in the annual financial statements represent the contractual balance committed to capital projects on reporting date that will incurred in the period subsequent to the specific reporting date. The municipality discloses capital commitments exclusive of VAT.

#### 1.19 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

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#### 1.19 Revenue from exchange transactions (continued)

##### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

##### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

#### 1.20 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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#### 1.20 Revenue from non-exchange transactions (continued)

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

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#### 1.20 Revenue from non-exchange transactions (continued)

##### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

##### Unconditional Grants

Equitable share allocations are recognised in revenue in the beginning of the financial year.

##### Conditional Grants

Conditional grants recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

##### Availability charges

The municipality recognise revenue for charges billed to consumers for all vacant or undeveloped land that has been serviced. These properties are not connected to the municipal infrastructure, but can be reasonably be connected to the service.

Availability charges arise from the application of the approved tariff of charges and is recognised when the the asset recognition criteria is met.

##### Fines

Availability charges arise from the application of the approved tariff of charges and is recognised when the the asset recognition criteria is met.

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Assets arising from fines are initially measured at its fair value at the date of acquisition, which is the best estimate of the inflow of economic benefits. The probability of non-payment is not considered at initial recognition.

~~The non-payment of traffic fines is estimated at subsequent measurement with reference to historical data and payment trend analysis. An impairment loss is recognised in surplus and deficit.~~

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

##### Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

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### 1.20 Revenue from non-exchange transactions (continued)

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

#### Unallocated deposit

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the municipality's bank account will be treated as revenue. This policy is in line with prescribed debt principles as enforced by the law.

### 1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.23 Accounting by principals and agents

#### Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

#### Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

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#### **1.23 Accounting by principals and agents (continued)**

##### **Binding arrangement**

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

##### **Assessing which entity benefits from the transactions with third parties**

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

##### **Recognition**

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

#### **1.24 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

#### **1.25 Unauthorised expenditure**

Unauthorised expenditure is defined as any expenditure incurred by a municipality not in accordance with section 15 or 11(3) of the MFMA, and includes an overspending of the total amount appropriated in the municipality's approved budget, an overspending of the total amount appropriated for a vote in the approved budget, an expenditure from a vote unrelated to the department or functional area covered by the vote, an expenditure of money appropriated not in accordance for that specific purpose, a spending of an allocation not in accordance with any conditions of the allocation, or a grant made by the municipality not in accordance with the MFMA.

An expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.26 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

## Phumelela Local Municipality (FS195)

(Registration number FS195)

Audited Annual Financial Statements for the year ended 30 June 2023

### Accounting Policies

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#### 1.26 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Fruitless and wasteful expenditure is disclosed inclusive of VAT.

#### 1.27 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure is disclosed inclusive of VAT.

#### 1.28 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

#### Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance.

Management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure.

#### 1.29 Budget information

The approved budget covers the fiscal period from 2022/07/01 to 2023/06/30.

The approved budget is prepared on an accrual basis and presented in accordance with the GRAP reporting framework.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same accounting basis and for the same municipality and same period but not on the same classification basis therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements based on the prescribed budget schedules using tables B1, B4, B6 and B7.

A difference of 10% or more, and if the amount exceeds R3 million, between budgeted and actual amounts is regarded as material.

#### 1.30 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

## Phumelela Local Municipality (FS195)

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### Accounting Policies

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#### 1.30 Related parties (continued)

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its audited annual financial statements.

#### 1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

#### 1.32 Value Added Tax

The municipality accounts for Value Added Tax on the Payments Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

The Municipality is registered for VAT on the payment basis. Revenue, expenses and assets are recognised net of the amount of value added tax. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

#### 1.33 Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts are reflected on the Statement of Financial Position as a current liability. They represent unspent government grants, subsidies and contributions from the public. This liability always has to be backed by cash.





# Phumelela Local Municipality (FS195)

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## Notes to the Audited Annual Financial Statements

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### 3. Investment property

	2023		2022			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	32,567,668	(19,482,392)	13,085,276	32,567,668	(19,165,865)	13,401,803

#### Reconciliation of investment property - 2023

Investment property	Opening balance	Depreciation	Total
	13,401,803	(316,528)	13,085,276

#### Reconciliation of investment property - 2022

Investment property	Opening balance	Impairments	Reversal of impairments	Total
	13,355,897	(364,261)	410,167	13,401,803

#### Pledged as security

No investment property has been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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## Phumelela Local Municipality (FS195)

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#### 3. Investment property (continued)

##### Details of valuation

The effective date of the revaluations was 30 June 2023. Revaluations were performed by WRCON (Pty) Ltd. Mr PH Venter was the valuer at WRCON (Pty) Ltd to perform the valuations. Mr Venter is a registered Professional Associated Valuer with the SA Council for Valuers Profession, registration number 7428, a member of the SA Institute of Valuers and has the appropriate experience in performing valuation of investment properties.

The valuation for the land portion was based on adapted comparable sales and for the improvements there-on on replacement costs.

These assumptions are based on current market conditions.

## Phumelela Local Municipality (FS195)

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#### 4. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	75,821,664	(32,625,454)	43,196,210	75,821,664	(25,627,767)	50,193,897
Buildings	153,706,062	(78,914,830)	74,791,232	150,382,051	(74,295,870)	76,086,181
Landfill site	40,769,648	(21,349,866)	19,419,782	40,034,580	(19,995,120)	20,039,460
Plant and machinery	1,932,850	(448,431)	1,484,419	898,641	(248,239)	650,402
Motor vehicles	18,977,543	(12,094,893)	6,882,650	18,977,543	(9,020,551)	9,956,992
Office equipment	2,304,333	(1,747,134)	557,199	2,201,091	(1,498,798)	702,293
IT equipment	5,271,107	(3,835,456)	1,435,651	4,990,598	(3,447,767)	1,542,831
Infrastructure - Road network	356,285,221	(223,236,813)	133,048,408	362,573,227	(210,090,588)	142,483,139
Infrastructure - Electricity network	39,009,040	(12,048,246)	26,960,794	37,571,376	(10,536,664)	27,034,712
Work in progress	75,231,349	-	75,231,349	78,413,180	-	78,413,180
Wastewater network	152,976,547	(70,172,011)	82,804,536	152,828,415	(66,570,754)	86,257,661
Water network	439,726,802	(127,779,844)	311,946,958	420,694,777	(118,591,081)	302,103,696
<b>Total</b>	<b>1,362,012,166</b>	<b>(584,252,978)</b>	<b>777,759,188</b>	<b>1,335,387,143</b>	<b>(539,922,699)</b>	<b>795,464,444</b>

## Phumelela Local Municipality (FS195)

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### Notes to the Audited Annual Financial Statements

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#### 4. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	WIP additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	50,193,897	-	-	-	-	-	(6,997,687)	43,196,210
Buildings	76,086,181	17,761	-	3,306,250	-	(4,213,567)	(405,393)	74,791,232
Landfill site	20,039,460	735,068	-	-	-	(1,354,746)	-	19,419,782
Plant and machinery	650,402	136,442	-	897,767	-	(166,479)	(33,713)	1,484,419
Motor vehicles	9,956,992	-	-	-	-	(1,421,715)	(1,652,627)	6,882,650
Office equipment	702,293	103,242	-	-	-	(138,391)	(109,945)	557,199
IT equipment	1,542,831	280,509	-	-	-	(282,124)	(105,565)	1,435,651
Infrastructure - Road network	142,483,139	-	-	3,711,994	-	(13,146,725)	-	133,048,408
Infrastructure - Electricity network	27,034,712	-	-	1,437,654	-	(1,215,270)	(296,312)	26,960,794
Work in progress	78,413,180	-	25,238,351	(28,420,182)	-	-	-	75,231,349
Wastewater network	86,257,661	-	-	148,132	-	(3,554,650)	(46,607)	82,804,536
Water network	302,103,696	113,650	-	18,918,375	-	(9,087,915)	(100,848)	311,946,958
	<b>795,464,444</b>	<b>1,386,672</b>	<b>25,238,351</b>	<b>-</b>	<b>-</b>	<b>(34,581,582)</b>	<b>(9,748,697)</b>	<b>777,759,188</b>

## Phumelela Local Municipality (FS195)

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#### 4. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	WIP additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	50,245,800	-	-	-	-	-	(639,692)	587,789	50,193,897
Buildings	79,255,045	42,104	-	1,026,215	-	(4,151,279)	(85,904)	-	76,086,181
Landfill site	20,628,821	740,716	-	-	-	(1,330,077)	-	-	20,039,460
Plant and machinery	484,071	278,500	-	-	-	(73,000)	-	-	650,402
Motor vehicles	7,439,493	3,905,461	-	-	-	(1,387,962)	-	7,608	9,956,992
Office equipment	798,605	107,527	-	-	-	(141,610)	-	11,354	702,293
IT equipment	1,590,815	392,564	-	-	-	(271,796)	-	18,615	1,542,831
Infrastructure - Road network	154,105,247	-	-	1,530,095	-	(12,980,477)	(171,726)	-	142,483,139
Infrastructure - Electricity network	28,223,295	-	-	-	-	(1,188,583)	-	-	27,034,712
Work in progress	68,305,240	-	38,113,146	(28,005,206)	-	(3,342,758)	-	-	78,413,180
Wastewater network	78,745,172	-	-	10,906,464	-	(8,834,188)	-	-	86,257,661
Water network	297,548,411	343,098	-	14,542,432	-	(1,500,230)	-	4,173	302,103,696
	<b>787,370,015</b>	<b>5,809,970</b>	<b>38,113,146</b>	<b>-</b>	<b>-</b>	<b>(33,701,732)</b>	<b>(2,756,494)</b>	<b>629,539</b>	<b>795,454,444</b>

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## Phumelela Local Municipality (FS195)

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<b>4. Property, plant and equipment (continued)</b>		
<b>Property, plant and equipment in the process of being constructed or developed</b>		
<b>Cumulative expenditure recognised in the carrying value of property, plant and equipment</b>		
Infrastructure - Roads network	19,873,494	9,291,058
Community	930,278	2,056,780
Infrastructure - Electricity network	16,408,247	16,408,247
Wastewater network	38,019,329	26,318,072
Infrastructure - Water network	-	24,339,022
	<b>75,231,348</b>	<b>78,413,179</b>
<b>Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected</b>		
Electrification of 300 houses and upgrading of infrastructure in Memel The municipality are awaiting the Voltage regulator for the commissioning of the project	13,938,116	13,938,116
Refurbishment of waste water treatment works and revamping of pump station in ezenzeleni Warden The project took a bit longer due to the fact that there were changes to the scope of the project and the contractor was waiting for vital components of the project.	20,229,066	17,658,061
	<b>34,167,183</b>	<b>31,596,177</b>
<b>Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)</b>		
Construction of 1 KM road in VREDE/THEMBALIHLE The project was stopped by local business forum	4,959,080	429,800
Construction of sewer reticulation and house connections for 118 houses, toilet structures and outfall sewer in Zamani Memel The contractor was terminated due to poor performance	7,162,015	5,700,313
	<b>12,121,095</b>	<b>6,130,113</b>

#### Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	78,413,178	-	-	78,413,178
Additions/capital expenditure	25,238,351	-	-	25,238,351
Transferred to completed items	(28,420,182)	-	-	(28,420,182)
	<b>75,231,347</b>	<b>-</b>	<b>-</b>	<b>75,231,347</b>

#### Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	68,305,240	-	-	68,305,240
Additions/capital expenditure	38,113,143	-	-	38,113,143
Transferred to completed items	(28,005,205)	-	-	(28,005,205)
	<b>78,413,178</b>	<b>-</b>	<b>-</b>	<b>78,413,178</b>

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**Phumelela Local Municipality (FS195)**

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Audited Annual Financial Statements for the year ended 30 June 2023

**Notes to the Audited Annual Financial Statements**

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<b>4. Property, plant and equipment (continued)</b>		
<b>Expenditure incurred to repair and maintain property, plant and equipment</b>		
<b>Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance</b>		
General expenses	6,899,765	8,541,846

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



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**5. Heritage assets**

	2023		2022	
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation
Art Collections, antiquities and exhibits	5,761	-	5,761	5,761
				Accumulated impairment losses
				Carrying value
				5,761

**Reconciliation of heritage assets 2023**

	Opening balance	Total
Art Collections, antiquities and exhibits	5,761	5,761

**Reconciliation of heritage assets 2022**

	Opening balance	Total
Art Collections, antiquities and exhibits	5,761	5,761

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Figures in Rand	2023	2022	
<b>6. Other financial assets</b>			
<b>Designated at fair value</b>			
Unlisted shares	361,173	392,300	
Terms and conditions			
<b>Non-current assets</b>			
Designated at fair value	361,173	392,300	
<b>7. Payables from exchange transactions</b>			
Unallocated receipts and deposits	10,362,428	33,418,771	
Accrued leave pay	6,603,953	6,137,831	
Medical aid contributions not yet paid over	1,038,161	928,378	
Debtors in credit	10,003,489	7,156,146	
13th cheque accrual	2,466,548	2,260,115	
Salaries accrued for(only paid after year end)	3,975,731	1,694,638	
Pensions contributions not yet paid over	3,216,053	1,917,003	
Retentions	7,149,170	9,129,152	
Payments received in advance - sale of stands	1,942,882	2,041,758	
Payments received in advanced - contract in process	100,927	73,187	
PAYE contributions not yet paid over	2,792,530	399,542	
Trade payables	367,699,928	332,933,540	
	<b>417,351,800</b>	<b>398,090,061</b>	
<b>8. Consumer deposits</b>			
Electricity and water	249,437	236,881	
Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding accounts.			
<b>9. Employee benefit obligations</b>			
<b>The amounts recognised in the statement of financial position are as follows:</b>			
<b>Non-current employee benefits</b>			
Post employment health care benefits	8.1	(911,966)	(753,853)
Long-service awards benefits	8.2	(4,729,740)	(3,631,860)
		<b>(5,641,706)</b>	<b>(4,385,713)</b>
<b>Current employee benefits</b>			
Post employment health care benefits	8.1	109,502	(104,013)
Long-service awards benefits	8.2	(324,906)	(546,370)
		<b>(215,404)</b>	<b>(436,357)</b>
<b>Total employee benefits</b>			
Post-Retirement Medical Aid benefits liability		(802,464)	(857,866)
Long-service awards benefits		(5,054,646)	(4,178,230)
		<b>(5,857,110)</b>	<b>(5,036,096)</b>
<b>Non-current liabilities</b>		(5,422,703)	(4,997,251)
<b>Current liabilities</b>		(434,408)	(768,313)
		<b>(5,857,111)</b>	<b>(5,765,564)</b>

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**Phumelela Local Municipality (FS195)**

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**Notes to the Audited Annual Financial Statements**

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**9. Employee benefit obligations (continued)**

**Post employment health care benefits**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. The plan is treated as a defined benefit plan under GRAP 25. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2023 by D T Mureriwa of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

Continuation members (Retirees)	2	2
<b>Total members</b>	2	2

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

**Key Health**

The liability in respect of past service has been estimated as follow:

In-service members (Employees)	-	-
In-service non-members (Employees)	-	-
Continuation members (Retirees)	802,464	857,867
<b>Total liability</b>	802,464	857,867
Non-current	692,962	753,853
Current	109,502	104,014
	802,464	857,867

The principal assumptions used for the purposes of the actuarial valuations were as follow:

<b>Rates of interest</b>		
Discount rate	10.60 %	10.22 %
Health care cost inflation rate	6.82	8.21
Net effective discount rate	3.54 %	1.86 %

**Normal retirement age**

The average retirement age for all active employees was assumed to be 62 years.

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### Notes to the Audited Annual Financial Statements

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<b>9. Employee benefit obligations (continued)</b>		
Amounts recognised in the statement of financial position		
The amounts recognised in the statement of financial position is as follows:		
<b>Present value of unfunded obligations</b>	<b>802,464</b>	<b>857,867</b>
Amounts recognised in the statement of financial performance		
The amounts recognised in the statement of financial performance is as follows:		
Current service cost	-	-
Interest cost	82,359	72,274
Actuarial loss/ (gain) recognised in the year	(47,690)	(111,106)
<b>Total post-retirement benefit included in employee related costs</b>	<b>34,669</b>	<b>(38,832)</b>

#### Movements in the present value of the defined benefit obligation

Opening balance	857,867	1,027,009
Current service cost	-	-
Interest cost	82,359	72,274
Actual employer benefit payments	(90,072)	(130,310)
Actuarial loss/ (gain) recognised in the year	(47,690)	(111,106)
<b>Present value of fund obligation at the end of the year</b>	<b>802,464</b>	<b>857,867</b>

Amounts for the current and previous four periods are as follows:

#### Present value of unfunded defined benefit

2023	802,464
2022	857,867
2021	1,027,009
2020	1,614,781
2019	1,889,000

#### Sensitivity analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	Continuation	Total	% change
Health care inflation	1	-	86,802	86,802	-
	(1)	-	78,226	78,226	-
Discount rate	1	-	85,074	85,074	-
	(1)	-	79,183	79,183	-

#### Sensitivity analysis on Current-service and Interest Costs

Assumption	Change	In-service	Continuation	Total	% change
Health care inflation	1	-	82,009	82,009	3.47%
	(1)	-	74,718	74,718	(5.73)%
Discount rate	1	-	82,009	82,009	3.47%
	(1)	-	76,009	76,009	(3.99)%

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## Phumelela Local Municipality (FS195)

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Audited Annual Financial Statements for the year ended 30 June 2023

### Notes to the Audited Annual Financial Statements

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#### 9. Employee benefit obligations (continued)

Discount rate: GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation. The methodology of setting financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2022 the duration of liabilities was 5.88 years. At this duration, the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2023 is 10.73% per annum, and the yield on inflation-linked bonds of a similar term was about 4.60% per annum. This implies an underlying expectation of inflation of 5.38% per annum  $((1 + 10.73\% - 0.5\%) / [1 + 4.60\%] - 1)$ . We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 6.38% per annum. However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 4.09% per annum  $((1 + 10.73\%) / [1 + 6.38\%] - 1)$ . This year's valuation basis is consistent with the previous year's basis from a discount rate perspective.

#### Mortality Rates

Post retirement: PA (90) ultimate Mortality table was used.

#### Continuation of Membership

With the appointment of 1 Pangaea Expertise and Solutions Pty (Ltd) for the year ending 30 June 2023.

The table below summarises the accrued liabilities and the plan assets for the current period and the previous four periods:

Liability History	2023/06/30	2022/06/30	2021/06/30	2020/06/30	2019/06/30
Accrued Liability	(802,464)	(857,867)	(1,027,009)	(1,614,781)	(1,889,000)
Fair value of plan assets	-	-	-	-	-
<b>Surplus / (Deficit)</b>	<b>802,464</b>	<b>857,867</b>	<b>1,027,009</b>	<b>1,614,781</b>	<b>1,889,000</b>

The table below summarises the experience adjustments for the current and previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred:

Experience adjustment	2023/06/30	2022/06/30	2021/06/30	2020/06/30	2019/06/30
Liabilities: (Gain) / Loss	(47,690)	(111,106)	510,876	168,199	(67,000)
Assets: Gain / (Loss)	-	-	-	-	-
	<b>(47,690)</b>	<b>(111,106)</b>	<b>510,876</b>	<b>168,199</b>	<b>(67,000)</b>

#### Long-service awards benefits

The municipality operates a funded defined benefit plan for all its employees. Under the plan, a Long Service Award is payable after 5 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2023 by One Pangaea Expertise and Solutions Pty (Ltd). The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. Additional text

At year end 265 (2022: 279) employees were eligible for Long Services Awards.

The principal assumptions used for the purposes of the actuarial valuations were as follow:

Discount rate	10.73 %	9.83 %
General Salary inflation	6.38 %	7.56 %
Net effective discount rate	4.09 %	2.11 %
The amounts recognised in the statement of financial position are as follow:		
Present value of unfunded obligations	5,054,646	4,907,698

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#### 9. Employee benefit obligations (continued)

Amounts recognised in the statement of financial performance

The amounts recognised in the statement of financial performance are as follow:

Current service cost	502,034	459,805
Interest cost	449,776	375,331
Actuarial losses / (gains) recognised	(434,616)	417,300
<b>Total expense included in employee related costs</b>	<b>517,194</b>	<b>1,252,436</b>

Opening Balance	4,907,698	4,259,624
Current service cost	502,034	459,805
Interest cost	449,776	375,331
Actual employer benefit payments	(370,246)	(604,362)
Actuarial loss/ (gain) recognised in the year	(434,616)	417,300
	<b>5,054,646</b>	<b>4,907,698</b>

Liability History	2023/06/30	2022/06/30	2021/06/30	2020/06/30	2019/06/30
Accrued Liability	(5,054,646)	(4,907,698)	(4,259,625)	(4,160,427)	(4,178,230)
Fair value of plan assets	-	-	-	-	-
<b>Surplus / (Deficit)</b>	<b>5,054,646</b>	<b>4,907,698</b>	<b>4,259,625</b>	<b>4,160,427</b>	<b>4,178,230</b>

The table below summarises the experience adjustments for the current and previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred:

Experience adjustment	2023/06/30	2022/06/30	2021/06/30	2020/06/30	2019/06/30
Liabilities: (Gain) / Loss	(434,616)	417,300	(93,002)	265,547	(198,652)
Assets: Gain / (Loss)	-	-	-	-	-
	<b>(434,616)</b>	<b>417,300</b>	<b>(93,002)</b>	<b>265,547</b>	<b>(198,652)</b>

#### 10. Inventories

Consumable stores	1,257,151	1,128,684
Water for distribution	127,017	41,193
	<b>1,384,168</b>	<b>1,169,877</b>

Carrying value of inventories carried at fair value less costs to sell

1,384,168

1,169,877

Inventories recognised as an expense during the year

349,931

736,868

#### Water for distribution

Opening balance	41,193	73,877
Water Purchased	12,998,108	11,254,542
Water Sold	(12,998,108)	(11,254,542)
Water losses (Inventories write-up / (write down))	51	85,824
	<b>127,017</b>	<b>41,193</b>

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<b>11. Receivables from exchange transactions</b>		
Trade debtors	2,476,735	608,089
Electricity	889,081	733,268
Water	4,571,390	2,136,460
Sewerage	5,334,851	2,954,682
Refuse	5,492,576	3,379,089
Business service levies	6,600,282	2,849,684
Housing rental	279,077	510,745
Sundry	167,632	554,808
	<b>25,811,624</b>	<b>13,726,825</b>

**Trade and other receivables pledged as security**

No Trade and other receivables from exchanges transactions were pledged as security

**Fair value of trade and other receivables**

**Reconciliation of provision for impairment of trade and other receivables**

**12. Receivables from non-exchange transactions**

Other receivables from non-exchange revenue	100,000	400,000
Consumer debtors - Rates	4,749,473	3,065,957
	<b>4,849,473</b>	<b>3,465,957</b>

**Statutory receivables included in receivables from non-exchange transactions above are as follows:**

Consumer debtors - Rates	4,749,473	3,065,957
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<b>Financial asset receivables included in receivables from non-exchange transactions above</b>	<b>100,000</b>	<b>400,000</b>
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<b>Total receivables from non-exchange transactions</b>	<b>4,849,473</b>	<b>3,465,957</b>
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**Receivables from non-exchange transactions pledged as security**

No Trade and other receivables from non exchange from exchanges transactions were pledged as security

**Fair value of receivables from non-exchange transactions**

**13. Statutory receivables relating to other Standards of GRAP (other than exchange or non-exchange receivables)**

The entity had the following statutory receivables where other Standards of GRAP (other than Standards of GRAP on Revenue from Exchange Transactions or Revenue from Non-exchange Transactions) have been applied, for the initial recognition:

Consumer debtors - Rates	4,749,473	3,065,957
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VAT Receivable	46,854,505	43,890,950
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The relating line item where statutory receivables are included is [Receivables from exchange and non exchange transactions]

	<b>51,603,978</b>	<b>46,956,907</b>
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**Statutory receivables relating to other Standards of GRAP (other than exchange or non-exchange receivables) (continued)**

#### Statutory receivables (other than exchange or non-exchange) general information

##### Transaction(s) arising from statute

Property rates related transactions arise in terms of the Municipal Property Rates Act, 6 of 2004, Municipal Finance Management Act, 56 of 2003, as well as the Property Rates Policy of the municipality approved by Council as part of the Budget Process.

Traffic fines arise from the National Road Traffic Act 93 of 1996, National Road Traffic Regulations 2000, National Land Transport Act 5 of 2009 and Criminal Procedure Act 51 of 1971. Prosecutor performs prosecutorial functions in terms of a general delegation awarded by the National Prosecuting Authority and is subject to the control of the Control Prosecutor at the Magistrate's Court in Phumelela.

Government grants related transactions arise in terms of the applicable annual Division of Revenue Act Bill as well as the relevant Provincial Gazette.

VAT transactions arise from the Value Added Tax Act 89 of 1991. VAT is an indirect tax on the consumption of goods and services in the economy. VAT is levied on all goods and services subject to certain exemptions, exceptions, deductions and adjustments provided for in the Value Added Tax Act 89 of 1991.

##### Determination of transaction amount

Property rates transaction amounts are determined in line with the Annual Tariff List of the municipality approved by Council as part of the Budget Process in terms of the Municipal Finance Management Act, 56 of 2003.

Traffic fines transaction amounts are determined in line with the Traffic Offence Code Book as approved by Senior Magistrate and implemented in the district of Phumelela.

Government grants related transaction amounts allocated to the municipality are stipulated in the applicable annual Division of Revenue Act as well as the relevant Provincial Gazette.

##### Interest or other charges levied/charged

Interest or other charges levied on Property rates balances are in line with the Annual Tariff List of the municipality approved by Council as part of the Budget Process in terms of the Municipal Finance Management Act, 56 of 2003. "Interest" means a charge levied, on all arrear accounts calculated at an interest rate which is one percent higher than the prime interest rate.

Traffic fines: Additional charges includes contempt of court fees/ warrant of arrest fee determined in terms of the Criminal Procedure Act.

Interest or other charges levied on Government grants, if applicable, is based on the average investment rate for the applicable year.

The rates and interest charges are determined by the Value Added Tax Act 89 of 1991.

##### Basis used to assess and test whether a statutory receivable is impaired

The basis used to assess Property Rates receivables is to look at the extent to which debtors on an individual basis defaulted on payments already due and an assessment of their ability to make payments based on their historical collection trend.

The basis used to assess Traffic fine receivables is to look at the extent to which debtors per group of fines (Municipal fines, Provincial fines) defaulted on payments already due and an assessment of their ability to make payments based on their historical trend.

##### Statutory receivables impaired

As of 30 June 2023, Statutory receivables (other than exchange or non-exchange) of -56,593,182 (2022: -48,916,472) were impaired and provided for.



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#### Statutory receivables relating to other Standards of GRAP (other than exchange or non-exchange receivables) (continued)

The amount of the provision was -56,593,182 as of 30 June 2023 (2022: -48,916,472).

#### Factors the entity considered in assessing statutory receivables (other than exchange or non-exchange) impaired

A payment % report was drawn in order to establish the payment percentage per type of debtor. This payment percentage was used to impair these statutory receivables

#### 14. VAT receivable

VAT Receivable	46,854,505	43,890,950
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The municipality is registered for VAT on the payment/ cash basis.

VAT meets the definition of a statutory receivable as per the accounting policy. For statutory receivable information regarding VAT refer to note 12.

#### 15. Consumer debtors disclosure

##### Gross balances

Consumer debtors - Rates	61,342,655	51,982,429
Consumer debtors - Electricity	4,471,197	4,403,215
Consumer debtors - Water	85,952,858	76,611,927
Consumer debtors - Sewerage	92,290,241	84,279,151
Consumer debtors - Refuse	93,955,085	86,344,245
Consumer debtors - Interest	144,537,536	117,466,852
Consumer debtors - Rental	4,594,210	4,382,786
Consumer debtors - Sundry	1,614,485	2,136,413
	<b>488,758,267</b>	<b>427,607,018</b>

##### Less: Allowance for impairment

Consumer debtors - Rates	(56,593,182)	(48,916,472)
Consumer debtors - Electricity	(3,582,116)	(3,669,947)
Consumer debtors - Water	(81,381,468)	(74,475,467)
Consumer debtors - Sewerage	(86,955,390)	(81,324,469)
Consumer debtors - Refuse	(88,462,509)	(82,965,156)
Consumer debtors - Interest	(137,937,254)	(114,617,168)
Consumer debtors - Rental	(4,315,133)	(3,872,041)
Consumer debtors - Sundry	(1,446,853)	(1,581,605)
	<b>(460,673,905)</b>	<b>(411,422,325)</b>

##### Net balance

Consumer debtors - Rates	4,749,473	3,065,957
Consumer debtors - Electricity	889,081	733,268
Consumer debtors - Water	4,571,900	2,136,160
Consumer debtors - Sewerage	5,334,851	2,954,682
Consumer debtors - Refuse	5,492,576	3,379,089
Consumer debtors - Interest	6,600,282	2,849,684
Consumer debtors - Rental	279,077	510,745
Consumer debtors - Sundry	167,632	554,808
	<b>28,084,362</b>	<b>16,184,693</b>

#### Statutory receivables included in consumer debtors above are as follows:

Consumer debtors - Rates	4,749,473	3,065,957
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<b>15. Consumer debtors disclosure (continued)</b>		
<b>Financial asset receivables included in consumer debtors above</b>	<b>23,334,889</b>	<b>13,118,736</b>
<b>Total consumer debtors</b>	<b>28,084,362</b>	<b>16,184,693</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	889,081	733,268
Water	4,571,390	2,136,460
Refuse	5,492,576	2,954,682
Sewerage	5,334,851	3,379,089
Interest	6,600,282	2,849,684
Rentals	279,077	510,745
Sundry	167,633	554,808
	<b>23,334,890</b>	<b>13,118,736</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	4,749,473	3,065,957
<b>Net balance</b>	<b>28,084,363</b>	<b>16,184,693</b>
<b>Rates</b>		
Current (0 -30 days)	531,734	(861,029)
31 - 60 days	897,187	847,213
61 - 90 days	864,311	759,720
91 - 120 days	758,504	732,255
120+ Days	58,290,920	50,504,270
Impairment	(56,593,182)	(48,916,472)
	<b>4,749,473</b>	<b>3,065,957</b>
<b>Consumer debtors - Electricity</b>		
Current (0 -30 days)	(499,161)	(397,354)
31 - 60 days	12,950	13,971
61 - 90 days	12,957	11,985
91 - 120 days	29,090	110,678
120+ Days	4,915,361	4,663,935
Impairment	(3,582,116)	(3,669,947)
	<b>889,081</b>	<b>733,268</b>
<b>Consumer debtors - Water</b>		
Current (0 -30 days)	921,007	607,450
31 - 60 days	1,328,494	911,004
61 - 90 days	963,988	789,052
91 - 120 days	952,132	875,568
120+ Days	81,787,257	75,428,853
Impairment	(81,381,468)	(74,475,467)
	<b>4,571,390</b>	<b>2,136,460</b>

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<b>15. Consumer debtors disclosure (continued)</b>		
<b>Consumer debtors - Sewerage</b>		
Current (0 -30 days)	983,235	964,915
31 - 60 days	1,250,664	1,186,398
61 - 90 days	1,145,419	1,084,759
91 - 120 days	1,136,329	1,106,977
120+ Days	87,774,594	81,576,789
Impairment	(86,955,390)	(82,965,156)
	<b>5,334,851</b>	<b>2,954,682</b>
<b>Consumer debtors - Refuse</b>		
Current (0 -30 days)	835,772	906,943
31 - 60 days	1,134,403	1,101,631
61 - 90 days	1,045,297	1,027,196
91 - 120 days	1,047,225	1,053,142
120+ Days	89,892,388	80,614,646
Impairment	(88,462,509)	(81,324,469)
	<b>5,492,576</b>	<b>3,379,089</b>
<b>Consumer debtors - Interest</b>		
Current (0 -30 days)	2,972,514	508,149
31 - 60 days	3,245,070	1,959,690
61 - 90 days	3,108,478	1,933,306
91 - 120 days	2,813,722	1,964,964
120+ Days	132,397,753	111,100,743
Impairment	(137,937,254)	(114,617,168)
	<b>6,600,282</b>	<b>2,849,684</b>
<b>Consumer debtors - Rental</b>		
Current (0 -30 days)	73,495	143,597
31 - 60 days	59,247	87,707
61 - 90 days	55,367	85,050
91 - 120 days	45,916	72,376
120+ Days	4,360,184	3,994,056
Impairment	(4,315,131)	(3,872,041)
	<b>279,077</b>	<b>510,745</b>
<b>Consumer debtors - Sundry</b>		
Current (0 -30 days)	(8,032,462)	(55,248)
31 - 60 days	12,319	15,206
61 - 90 days	11,447	12,877
91 - 120 days	11,295	13,396
120+ Days	9,611,886	2,150,182
Impairment	(1,446,853)	(1,581,605)
	<b>167,632</b>	<b>554,806</b>

#### Summary of debtors by customer classification

##### Reconciliation of allowance for impairment

Balance at beginning of the year	411,422,325	369,253,093
Contributions to allowance	49,251,580	42,169,232
	<b>460,673,905</b>	<b>411,422,325</b>



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<b>17. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	4,013,368	-
Regional Bulk Infrastructure Grant (Direct)	391,250	391,250
Dept of Water & Sanitation (WSIG)	8,739,712	10,476,188
	<b>13,144,330</b>	<b>10,867,438</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	10,867,438	3,726,100
Additions during the year	43,077,000	54,849,001
Income recognition during the year	(40,800,108)	(47,707,662)
	<b>13,144,330</b>	<b>10,867,439</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note (26) for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

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#### 18. Provisions

##### Reconciliation of provisions - 2023

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in provision	Finance cost	Total
Rehabilitation of landfill site	77,157,908	-	-	-	735,069	5,468,514	83,361,490

##### Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in provision	Finance cost	Total
Rehabilitation of landfill site	73,377,170	-	-	-	740,715	3,040,022	77,157,908

#### Environmental rehabilitation provision

The provision is made in terms of the municipality's licensing stipulations on the landfill waste sites.

Phumelela Local Municipality consists of three (3) towns (Vrede, Memel and Warden). Vrede, Memel and Warden are located in an area of agricultural significance and Vrede is the central business district of Phumelela Municipality. Landfill operations continue until all the available permitted airspace has been filled. Once this happens, the site close and capped with a layer of impermeable clay and a layer of top soil. Grass and other suitable vegetation types are planted to stabilize the soil and improve the appearance. Environmental monitoring continues for a period of up to 30 years after the closure of the site. No appointment for the closure of these sites has been made, and therefore only rough estimates have been compiled without site visits with no detailed inspections or investigations. Basic information on the size and classification of each site was supplied.

#### Key cost parameters:

The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualised long term discount rate at 30 June 2023 was 12.31% p.a.. The consumer price inflation of 5.40% p.a. was obtained from the differential between the averages of the Nominal Bond Yield Curve and the Real Bond Yield Curve (Zero Yield Curves).  
Consumer price inflation (C) 5.40% (2022: 7.40%)  
Discount rate (D) 12.31% (2022: 11.64%)



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<b>21. Rental of facilities and equipment</b>		
<b>Premises</b>		
Rental from fixed property	715,502	1,067,371
<b>22. Fines, Penalties and Forfeits</b>		
Municipal Traffic Fines	53,061	24,174
<b>23. Interest - Transfer revenue</b>		
Interest charged on non exchange transactions	5,080,943	3,381,302
<b>24. Other income</b>		
Building Fees	84,626	82,837
Cemetery Fees	212,103	234,103
Collection Fees	46,145	94,068
Connection Fees	16,751	6,599
Gains on lapsed payables	451,245	638,548
Tender deposits	160,435	61,652
Sale of Stands	560,272	1,973,174
Clearance Certificate	36,404	388,681
Insurance claim	13,329	-
	<b>1,581,310</b>	<b>3,479,662</b>
<b>25. Interest received</b>		
<b>Interest revenue</b>		
Bank	371,765	336,575
Interest charged on trade and other receivables	23,430,473	16,792,392
	<b>23,802,238</b>	<b>17,128,967</b>



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Figures in Rand	2023	2022
<b>26. Property rates</b>		
<b>Rates received</b>		
Residential	17,297,212	16,327,656
<b>Valuations</b>		
Residential	1,282,599,000	1,288,819,000
Commercial	192,720,000	204,750,000
State	515,840,000	150,040,000
Municipal	35,970,000	35,970,000
Small holdings and farms	5,591,002,000	5,928,091,500
Institutional and Other	88,505,000	89,535,000
	<b>7,706,636,000</b>	<b>7,697,205,500</b>

The following assessment rates were charged for the period ending June 2023:

The relief measures on property rates are generally described in paragraph 8 of the approved Property Rates Policy of the Municipality. This includes the specific under mentioned relief measures:

Rebate and gross monthly household income for Qualifying senior citizens and Disabled persons:

Gross monthly household income %

R0 to R4 160.00 100%

Municipal valuation threshold value

On qualifying residential properties, property owners will receive a rebate up to a maximum value of R45 000, which amount includes a value of R15 000 as per Section 17(1)(h) of the Local Government: Municipal Property Rates Act, No. 6, 2004, and an additional value of R30 000 reduction granted as per paragraph 8.2.1(ii) of the approved Property Rates Policy.

Paragraph 8.2.1 (ii) is only applicable on properties with valuations up to R5 000 000.

Other rebates

Rebates have also been granted to qualifying non-profit organizations and to organizations who qualified for any other rebate as defined in the Property Rates Policy. Any other exclusions or exemptions have been granted in accordance with the Local Government: Municipal Property Rates Act, No. 6, 2004.

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<b>27. Government grants &amp; subsidies</b>		
<b>Operating grants</b>		
Equitable share	93,052,000	83,614,000
Financial Management Grant	3,100,000	3,100,000
EPWP	1,130,000	1,180,000
Provincial Treasury - Split meter grant	2,000,000	1,750,000
	<b>99,282,000</b>	<b>89,644,000</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	19,505,632	20,309,000
RBIG	-	8,334,850
WSIG	11,064,476	11,783,812
INEP	-	3,000,000
	<b>30,570,108</b>	<b>43,427,662</b>
	<b>129,852,108</b>	<b>133,071,662</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	36,800,108	49,457,662
Unconditional grants received	93,052,000	83,614,000
	<b>129,852,108</b>	<b>133,071,662</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and the day to day running of the municipality.		
<b>Municipal Infrastructure Grant</b>		
Current-year receipts	23,519,000	20,309,000
Conditions met - transferred to revenue	(19,505,632)	(20,309,000)
	<b>4,013,368</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Financial Management Grant</b>		
Current-year receipts	3,100,000	3,100,000
Conditions met - transferred to revenue	(3,100,000)	(3,100,000)
	<b>-</b>	<b>-</b>
<b>Regional Bulk Infrastructure Grant (Direct)</b>		
Balance unspent at beginning of year	391,250	3,726,100
Current-year receipts	-	5,000,000
Conditions met - transferred to revenue	-	(8,334,850)
	<b>391,250</b>	<b>391,250</b>
Conditions still to be met - remain liabilities (see note 16).		

## Phumelela Local Municipality (FS195)

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### Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>27. Government grants &amp; subsidies (continued)</b>		
<b>Dept of Water &amp; Sanitation (WSIG)</b>		
Balance unspent at beginning of year	10,476,188	-
Current-year receipts	15,328,000	22,260,000
Unspent WSIG portion deducted from Equitable share in 2023	(6,000,000)	-
Conditions met - transferred to revenue	(11,064,476)	(11,783,812)
	<b>8,739,712</b>	<b>10,476,188</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Expanded Public Works Programme Integrated Grant (EPWP)</b>		
Current-year receipts	1,130,000	3,000,000
Conditions met - transferred to revenue	(1,130,000)	(3,000,000)
	-	-
<b>28. Services in kind</b>		
N.T. 1% Audit fees expenditure	3,682,759	5,942,545

## Phumelela Local Municipality (FS195)

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### Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>29. Employee related cost</b>		
<b>Municipal staff</b>	<b>88,555,661</b>	<b>81,566,072</b>
<b>Senior Management Costs</b>		
Annual Remuneration	2,863,918	3,272,304
Car allowance	897,250	1,085,809
Contributions to UIF, Medical and Pension Funds	132,329	184,558
Acting allowance	290,782	111,576
	<b>4,184,279</b>	<b>4,654,247</b>
<b>Municipal staff costs</b>		
13th Cheques	4,006,846	3,603,822
Acting allowances	1,791,536	1,283,547
Basic	50,300,070	49,564,498
Car allowance	2,059,220	2,014,672
Employee benefit obligation	526,163	172,738
Defined contribution plans	8,802,215	7,619,552
Leave pay provision charge	1,082,016	1,753,664
Long-service awards	1,003,866	311,556
Medical aid - company contributions	3,332,276	3,070,293
Other payroll levies	45,291	35,072
Overtime payments	5,280,196	6,004,495
Standby allowance	327,351	282,914
SDL	687,608	637,225
Occupational allowance	4,847,180	21,257
UIF	529,366	536,523
	<b>84,621,200</b>	<b>76,911,828</b>
<b>Senior management costs Breakdown</b>		
<b>Remuneration of Municipal Manager - NF Malatjie</b>		
Basic Salary	124,548	673,233
Backpay	22,167	-
Contribution to pension fund, UIF, SDL	14,938	160,137
Car allowance	73,912	443,473
Non-Pensionable Salary	20,340	-
Travel Reimbursement	17,071	80,232
Gratuity	242,845	-
	<b>515,821</b>	<b>1,357,075</b>
<b>Remuneration of Chief Financial Officer - NF Ralebenya</b>		
Annual Remuneration	184,811	111,991
Car Allowance	262,357	260,082
Contributions to UIF, Medical and Pension Funds	12,628	12,111
Backpay	22,107	-
Non-Pensionable Salary	20,340	-
Travel reimbursement	70,415	31,345
	<b>1,172,665</b>	<b>1,081,534</b>

## Phumelela Local Municipality (FS195)

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Audited Annual Financial Statements for the year ended 30 June 2023

### Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>29. Employee related cost (continued)</b>		
<b>Remuneration of acting Director Corporate Services MS Mahlangu</b>		
Annual Remuneration	281,143	495,931
Car Allowance	64,831	129,662
Bonus	43,458	41,428
Contributions to UIF, Medical and Pension Funds	84,182	153,032
Other - Housing allowance	6,071	11,574
Other - Acting Allowance	113,306	259,030
Other - Travel Reimbursement, Non Pensionable Salary & Backpay	63,368	33,920
	<b>656,357</b>	<b>1,124,577</b>
<b>Remuneration of Director of Technical Services - ML Mokoena</b>		
Annual Remuneration	679,874	673,964
Acting Allowance	115,070	-
Car Allowance	367,300	364,114
Contributions to UIF, Medical and Pension Funds	14,427	12,310
Backpay	22,108	18,139
Travel Reimbursement	85,920	22,534
Non-Pensionable Salary	20,340	-
	<b>1,305,040</b>	<b>1,091,061</b>
<b>Remuneration of Director of Corporate Services - NL Maimela</b>		
Annual Remuneration	299,523	-
Acting Allowance	62,406	-
Car Allowance	128,850	-
Contributions to UIF, Medical and Pension Funds	6,153	-
Travel Reimbursement	37,464	-
	<b>534,396</b>	<b>-</b>
<b>30. Remuneration of councillors</b>		
Mayor	950,175	892,903
Speaker	776,219	724,881
All other councillors	4,896,958	4,411,177
Ward Committees	469,145	226,745
	<b>7,092,497</b>	<b>6,255,706</b>

## Phumelela Local Municipality (FS195)

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### Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>30. Remuneration of councillors (continued)</b>		
<b>Mayor - M.D. Kobeni</b>		
Basic salary	663,400	402,060
Travel allowance	225,154	134,020
Cellphone allowance	40,800	26,411
Contributions to UIF, Medical and Pension Funds	8,760	5,225
Backpay	12,062	-
	<b>950,175</b>	<b>567,716</b>
<b>Mayor - T.J. Motaung</b>		
Basic salary	-	230,710
Travel allowance	-	76,903
Cellphone allowance	-	14,579
Contributions to UIF, Medical and Pension Funds	-	2,995
	-	<b>325,187</b>
<b>Speaker</b>		
Basic salary	707,627	676,916
Cellphone allowance	40,800	40,990
Contributions to UIF, Medical and Pension Funds	7,483	6,975
Backpay	20,308	-
	<b>776,219</b>	<b>724,881</b>
<b>All other councillors</b>		
Basic salary	3,194,790	2,943,492
Travel allowance	993,244	889,172
Cellphone allowance	569,432	539,240
Contributions to UIF, Medical and Pension Funds	43,925	39,274
Directive	29,436	-
Backpay	66,132	-
	<b>4,896,958</b>	<b>4,411,177</b>
<b>Ward Committees</b>		
Basic salary	464,500	224,500
Contributions to UIF, Medical and Pension Funds	4,645	2,245
	<b>469,145</b>	<b>226,745</b>

## Phumelela Local Municipality (FS195)

(Registration number FS195)

Audited Annual Financial Statements for the year ended 30 June 2023

### Notes to the Audited Annual Financial Statements

Figures in Rand

	2023	2022
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#### 30. Remuneration of councillors (continued)

The Mayor and Speaker is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.  
The Mayor has one full-time driver. The speaker has one full-time driver.

#### Additional information

The remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution of South Africa, read with the Remuneration of Public Office-bearers Act, 1998 (Act No. 20 of 1998).

#### 31. Depreciation and amortisation

Property, plant and equipment	34,581,582	33,701,732
Investment property	316,526	364,261
	<b>34,898,108</b>	<b>34,065,993</b>

#### 32. Impairment loss

##### Impairments

Property, plant and equipment	(9,748,699)	(2,756,497)
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An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Infrastructure assets - GRAP 26.(23) states: In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

(g): Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Due to significant budget constraints, the municipality could not maintain the maintenance plan as required for the infrastructure assets. This led to the value in use being lower than the economic value of the assets. Assets were therefore impaired to a condition grade lower based on physical assessment of these assets.

##### Reversal of impairments

Property, plant and equipment	-	629,539
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Repairs and additions to the network assets resulted in previous conditions of assets to improve, thus a reversal of impairments.

Investment property	-	410,166
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Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]

	-	1,039,705
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<b>Total impairment losses (recognised) / reversed</b>	<b>(9,748,699)</b>	<b>(1,716,792)</b>
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#### 33. Finance costs

Trade and other payables	15,582,902	11,318,083
Provision landfill site	5,468,514	3,040,022
	<b>21,051,416</b>	<b>14,358,105</b>

#### 34. Auditors' remuneration

Fees	3,789,234	5,268,957
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**Phumelela Local Municipality (FS195)**

(Registration number FS195)

Audited Annual Financial Statements for the year ended 30 June 2023

**Notes to the Audited Annual Financial Statements**

Figures in Rand	2023	2022
<b>35. Debt impairment</b>		
Trade and other receivables from non-exchange transactions	47,177,214	42,911,161
<b>36. General expenses</b>		
Accounting fees	4,585,172	5,300,533
Advertising	240,327	121,269
Auditors remuneration	3,789,234	5,268,957
Bank charges	363,123	293,328
Chemicals	4,412,806	2,938,705
Commission paid	1,793,616	1,656,927
Community development and training	417,835	615,373
Conferences and seminars	87,776	182,386
Consulting and professional fees	1,232,277	260,649
Consumables	349,931	736,868
Entertainment	97,306	207,441
Fuel and oil	2,770,738	2,185,043
Hire	4,073,523	4,663,623
Insurance	1,069,464	776,417
Medical expenses	320	2,504
Other expenses	179,384	178,647
Postage and courier	220,670	293,656
Printing and stationery	361,852	819,348
Protective clothing	197,134	599,516
Repairs and maintenance	6,899,765	8,541,846
Software expenses	4,550,880	3,317,404
Subscriptions and membership fees	1,123,265	885,387
Telephone and fax	1,265,621	1,779,335
Valuation roll	291,145	314,663
Training	599,898	75,140
Travel - local	1,337,021	1,234,227
Vehicle licensing	164,345	114,239
	<b>42,474,428</b>	<b>43,363,431</b>
<b>37. Bulk purchases</b>		
Electricity - Eskom	28,212,519	30,404,788
Water	8,760,302	8,315,837
	<b>36,972,821</b>	<b>38,720,625</b>



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## Phumelela Local Municipality (FS195)

(Registration number FS195)

Audited Annual Financial Statements for the year ended 30 June 2023

### Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>38. Cash generated from operations</b>		
Surplus/(deficit)	(29,648,855)	(40,404,316)
<b>Adjustments for:</b>		
Depreciation and amortisation	34,898,108	34,065,993
Impairment deficit	9,748,699	1,716,792
Debt impairment	47,177,214	42,911,161
Movements in retirement benefit assets and liabilities	91,547	478,931
Movements in provisions	6,203,582	3,780,738
Landfill site movement	(735,068)	(740,715)
Other non-cash items	(28,702,979)	-
<b>Changes in working capital:</b>		
Inventories	(214,291)	1,130,026
Receivables from exchange transactions	(12,084,799)	(2,988,255)
Consumer debtors	(47,177,214)	(42,911,161)
Other receivables from non-exchange transactions	(1,383,516)	(3,847,825)
Payables from exchange transactions	47,964,722	37,490,761
VAT	(2,963,555)	1,706,575
Unspent conditional grants and receipts	2,276,892	7,141,338
Consumer deposits	12,556	11,558
	<b>25,463,043</b>	<b>39,541,601</b>

### 39. Operating surplus/(deficit)

Operating surplus/(deficit) for the year is stated after accounting for the following:

Impairment on property, plant and equipment	9,748,699	2,756,497
Reversal of impairment on property, plant and equipment	-	629,539
Reversal of impairment on investment property	-	410,166
Depreciation on property, plant and equipment	34,581,582	33,701,732
Depreciation on investment property	316,526	364,261
Employee costs	95,897,976	87,821,781

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### Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022	
<b>40. Financial instruments disclosure</b>			
<b>Categories of financial instruments</b>			
<b>2023</b>			
<b>Financial assets</b>			
	At fair value	At amortised cost	Total
Other financial assets	361,173	-	361,173
Receivables from exchange transactions	-	25,811,624	25,811,624
Receivables from non-exchange transactions	-	4,849,473	4,849,473
Cash and cash equivalents	-	246,119	246,119
	<b>361,173</b>	<b>30,907,216</b>	<b>31,268,389</b>
<b>Financial liabilities</b>			
		At amortised cost	Total
Payables from exchange transactions		417,351,799	417,351,799
Consumer deposits		249,437	249,437
Unspent conditional grants and receipts		13,144,330	13,144,330
		<b>430,745,566</b>	<b>430,745,566</b>
<b>2021</b>			
<b>Financial assets</b>			
	At fair value	At amortised cost	Total
Other financial assets	392,300	-	392,300
Receivables from exchange transactions	-	13,726,825	13,726,825
Receivables from non-exchange transactions	-	3,465,957	3,465,957
Cash and cash equivalents	-	641,904	641,904
	<b>392,300</b>	<b>17,834,686</b>	<b>18,226,986</b>
<b>Financial liabilities</b>			
		At amortised cost	Total
Payables from exchange transactions		398,090,057	398,090,057
Consumer deposits		236,881	236,881
Unspent conditional grants and receipts		10,867,438	10,867,438
		<b>409,194,376</b>	<b>409,194,376</b>

## Phumelela Local Municipality (FS195)

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### Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>41. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	46,146,320	15,981,493
<b>Total capital commitments</b>		
Already contracted for but not provided for	46,146,320	15,981,493
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	356,701	2,098,083
- in second to fifth year inclusive	-	356,701
	<b>356,701</b>	<b>2,454,784</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

#### 42. Contingencies

##### Contingent liabilities

##### Contractual disputes

Below is a list of possible liability claims where the outcome was unknown at 30 June 2023 with the maximum unforeseen liability for the Municipality:

	CY	PY
Khato project management // Phumelela Local Municipality	2,500,000	2,500,000
Telkom SA // Phumelela Local Municipality	951,117	-
TR Tshabalala // Phumelela Local Municipality	500,000	-
	<b>3,951,117</b>	<b>2,500,000</b>

Khato project management // Phumelela Local Municipality

Contractual dispute

Telkom SA // Phumelela Local Municipality

Dispute regarding the cancellation of the contract

TR Tshabalala // Phumelela Local Municipality

Labour dispute

As at reporting date the municipality is uncertain of the amount and timing of the outflow of any resources regarding the above mentioned cases.

# Phumelela Local Municipality (FS195)

(Registration number FS195)  
Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand

### 43. Related parties

Relationships  
Accounting Officer  
Chief Financial Officer  
Director Technical Services  
Members of key management

NL Maimela (Acting)  
F Ralebenya  
ML Mokoena  
Mayor - Cllr. MD Kobeni  
Speaker - Cllr. TR Zwane  
Cllr. KA Sibeko  
Cllr. VP Mahlaba  
Cllr. SO Magubane  
Cllr. TP Tsotetsi  
Cllr. BA Motsoeneng  
Cllr. V Thela  
Cllr. LI Molefe  
Cllr. NA Mazibuko  
Cllr. TN Masiteng  
Cllr. NJ Mokoena  
Cllr. DA Wessels  
Cllr. TI Radebe  
Cllr. JN Klemp  
Cllr. TJ Qwebu

### Related party disclosures

## Phumelela Local Municipality (FS195)

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Audited Annual Financial Statements for the year ended 30 June 2023

### Notes to the Audited Annual Financial Statements

Figures in Rand

#### 43. Related parties (continued)

##### Remuneration of management

##### Management class: Senior management

2023

Name	Basic salary	Allowances	Contributions to UIF, Medical and Pension Funds	Backpay	Acting allowance	Other benefits received	Total
Municipal Manager - NF Matlatjje	124,548	73,912	14,938	22,166	-	280,256	515,820
Director Corporate Services - ML Taimela	299,523	128,850	6,153	-	62,406	37,463	534,395
Chief Financial Officer - NF Ralebonyana	784,817	262,357	12,628	22,107	-	90,755	1,172,664
Director Corporate Services - M/S Mahlangu	-	-	-	-	113,306	-	113,306
Director Technical Services - ML Mokoena	679,874	367,300	14,428	22,107	115,070	106,261	1,305,040
	<b>1,888,762</b>	<b>832,419</b>	<b>48,147</b>	<b>66,380</b>	<b>290,782</b>	<b>514,735</b>	<b>3,641,225</b>

2022

Name	Basic salary	Allowances	Contributions to UIF, Medical and Pension Funds	Backpay	Acting allowance	Other benefits received	Total
Municipal Manager - NF Matlatjje	673,233	443,473	160,137	-	-	80,232	1,357,075
Chief Financial Officer - NF Ralebonyana	777,997	260,082	12,111	-	-	31,344	1,081,534
Director Corporate Services - ML Mokoena	673,964	364,114	12,310	18,139	-	22,533	1,091,060
Director Technical Services - M/S Mahlangu	-	-	-	-	259,030	-	259,030
	<b>2,125,194</b>	<b>1,067,669</b>	<b>184,558</b>	<b>18,139</b>	<b>259,030</b>	<b>134,109</b>	<b>3,788,699</b>

## Phumelela Local Municipality (FS195)

(Registration number FS195)  
Audited Annual Financial Statements for the year ended 30 June 2023

### Notes to the Audited Annual Financial Statements

Figures in Rand

#### 43. Related parties (continued)

##### Management class: Councillors

2023

Name	Basic salary	Medical and pension funds	Travel Allowance	Cellphone Allowance	Total
Executive Mayor: Clr. MD Kobeni	675,462	8,760	225,153	40,800	950,175
Speaker - Clr. TR Zwane	727,936	7,483	-	40,800	776,219
Clr. KA Sibeko	276,646	4,123	92,214	40,800	413,783
Clr. VP Mahlaba	215,954	2,953	71,984	40,800	331,691
Clr. SO Magubane	213,910	2,913	71,303	40,800	328,926
Clr. TP Tsotetsi	213,910	2,913	71,303	40,800	328,926
Clr. BA Motsoeneng	213,910	2,977	71,303	40,800	328,990
Clr. V Thela	282,750	3,815	94,249	40,800	421,614
Clr. LL Molefe	213,910	2,913	71,303	40,800	328,926
Clr. NA Mazibuko	213,910	2,913	71,303	40,800	328,926
Clr. TN Masiteng	213,910	2,913	71,303	40,800	328,926
Clr. NJ Mokoena	215,954	2,939	71,984	40,800	331,677
Clr. DA Wessels	285,646	3,822	95,214	40,800	425,482
Clr. TI Radebe	206,834	2,815	68,944	39,032	317,625
Clr. JN Klemp	212,497	2,895	70,832	40,800	327,024
Clr. TJ Gwebu	281,192	3,015	-	40,800	325,007
Clr. MM Mashinini	2,724	-	-	-	2,724
Clr. BV Khumalo	2,724	-	-	-	2,724
Clr. MS Ntsele	2,724	-	-	-	2,724
Clr. TM Tshabalala	2,724	-	-	-	2,724
Clr. T J Motaung	9,230	-	-	-	9,230
Clr. S E Tshabalala	3,861	-	-	-	3,861
Clr. J M Mofokeng	2,724	-	-	-	2,724
Clr. O A Mokoena	2,724	-	-	-	2,724
Ward Committees	464,500	4,645	-	-	469,145
	<b>5,158,266</b>	<b>64,807</b>	<b>1,218,392</b>	<b>651,032</b>	<b>7,092,497</b>

## Phumelela Local Municipality (FS195)

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### Notes to the Audited Annual Financial Statements

Figures in Rand

#### 43. Related parties (continued)

2022

Name	Basic salary	Medical and pension funds	Travel Allowance	Cellphone Allowance	Total
Executive Mayor - Cllr. T.J Molaun	230,710	2,995	76,903	14,579	325,187
Speaker - Cllr, TR Zwane	676,916	6,974	-	40,990	724,880
Cllr, TI Radebe	205,276	2,805	68,425	40,990	317,496
Cllr. BV Khumalo	73,011	998	24,337	14,579	112,925
Cllr. KA Sibeko	240,667	3,377	92,625	40,990	377,659
Cllr. MM Mashinini	73,011	998	24,337	14,580	112,926
Cllr. NS Ntsele	73,011	998	24,337	14,580	112,926
Cllr. NJ Mokoena	205,276	2,805	68,425	40,990	317,496
Cllr. DA Wessels	269,036	3,613	89,679	40,990	403,318
Cllr. SE Tshabalala	96,532	1,296	32,177	14,580	144,585
Cllr. JM Mofokeng	73,011	998	24,337	14,580	112,926
Cllr. OA Mokoena	73,011	998	24,337	14,580	112,926
Cllr. TM Tshabalala	73,011	998	24,337	14,580	112,926
Cllr. VP Kibido	205,276	2,805	68,425	40,990	317,496
Cllr. ZA Tshabalala	95,714	1,043	1,635	14,579	112,971
Executive Mayor Cllr. MD Kobeni	402,060	5,225	134,020	26,411	567,716
Cllr. SO Magubane	136,624	1,816	39,729	26,411	204,580
Cllr. TP Tsotetsi	136,624	1,816	39,729	26,411	204,580
Cllr. BA Motsoeneng	147,975	1,839	28,378	26,411	204,603
Cllr V Thela	177,477	2,327	52,528	26,411	258,743
Cllr. LL Molefe	136,624	1,816	39,729	26,411	204,580
Cllr. NA Mazibuko	136,624	1,816	39,729	26,411	204,580
Cllr. TN Matsiteng	136,624	1,816	39,729	26,411	204,580
Cllr. M Rautenbach	44,270	554	8,945	7,970	61,739
Cllr. JN Klemm	92,490	1,288	50,833	18,469	143,077
Cllr. TJ Gwebu	42,317	455	2,433	-	51,540
Ward Committees	224,500	2,245	-	-	226,745
	<b>4,477,678</b>	<b>56,714</b>	<b>1,100,092</b>	<b>621,222</b>	<b>6,255,706</b>

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#### 44. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

#### Statement of financial position

2022

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Receivables from exchange transactions		13,578,167	148,658	-	-	13,726,825
Receivables from non-exchange transactions		4,349,225	(883,268)	-	-	3,465,957
VAT receivable		44,317,283	(426,333)	-	-	43,890,950
Cash and cash equivalents		648,899	(6,995)	-	-	641,904
Investment property		13,401,803	-	-	-	13,401,803
Property, plant and equipment		763,924,918	31,539,526	-	-	795,464,444
Payables from exchange transactions		(394,926,545)	(3,163,516)	-	-	(398,090,061)
Accumulated surplus		(352,833,897)	(27,208,072)	-	-	(380,041,969)
		<b>92,459,853</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>92,459,853</b>



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#### 44. Prior-year adjustments (continued)

2021

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Cash and cash equivalents		4,277,035	(7,066)	-	-	4,269,969
Receivables from exchange transactions		11,756,158	(1,077,438)	-	-	10,678,720
Receivables from non-exchange transactions		2,932,815	(3,314,683)	-	-	(381,868)
Investment property		13,355,897	-	-	-	13,355,897
Property, plant and equipment		757,836,962	29,533,050	-	-	787,370,012
Payables from exchange transactions		361,315,629	716,335	-	-	362,031,964
Accumulated surplus		(394,596,085)	(25,850,198)	-	-	(420,446,283)
		<b>756,878,411</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>756,878,411</b>

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#### 44. Prior-year adjustments (continued)

##### Statement of financial performance

2022

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Revenue from exchange transactions						
Service charges		42,755,214	583,232	-	-	43,338,446
Rental of facilities and equipment		755,975	311,396	-	-	1,067,371
Interest received		16,945,808	183,159	-	-	17,128,967
Commissions received		-	228,006	-	-	228,006
Revenue from non-exchange transactions		3,564,391	(183,089)	-	-	3,381,302
Interest Received		-	-	-	-	-
Expenditure						
Depreciation and amortisation		(34,973,581)	907,588	-	-	(34,065,993)
Finance costs		(14,339,190)	(18,915)	-	-	(14,358,105)
Debt Impairment		(46,197,427)	3,286,266	-	-	(42,911,161)
Bulk purchases		(36,065,883)	(2,654,742)	-	-	(38,720,625)
General Expenses		(44,498,394)	4,937	-	1,130,026	(43,363,431)
Operating Surplus/ (Deficit)		(426,824)	(1,289,968)	-	-	(1,716,792)
Reversal of impairments (Impairment loss)		-	-	-	(1,130,026)	(1,130,026)
Inventories losses/write-downs		-	-	-	-	-
<b>Surplus for the year</b>		<b>(112,479,911)</b>	<b>1,357,870</b>	<b>-</b>	<b>-</b>	<b>(111,122,041)</b>

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### 44. Prior-year adjustments (continued)

#### Cash flow statement

2022

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Cash flow from operating activities:						
Property rates taxation		13,238,838	(183,089)	-	-	13,055,749
Service charges		22,178,056	7,303,356	-	-	29,481,412
Employee costs		(88,278,537)	629,497	-	-	(87,649,040)
Suppliers		(64,177,490)	8,281,465	-	-	(55,896,025)
<b>Net cash from operating activities</b>		<b>(117,039,133)</b>	<b>16,031,229</b>	<b>-</b>	<b>-</b>	<b>(101,007,904)</b>
Cash flow from investing activities						
Additions to PPE		(27,151,242)	(16,031,159)	-	-	(43,182,401)
<b>Net cash from investing activities</b>		<b>(27,151,242)</b>	<b>(16,031,159)</b>	<b>-</b>	<b>-</b>	<b>(43,182,401)</b>

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### 44. Prior-year adjustments (continued)

#### Errors

The following prior period errors adjustments occurred:

#### Error 1:

##### Trade Payables

Creditor reconciliations has been performed and the balances corrected accordingly

##### Affected line items

Payables from exchange transactions	546,502
General	(4,936)
Accumulated surplus (deficit)	(469,129)
VAT	(72,437)

#### Error 2:

##### Receivables

Debtor accounts was scrutinized and own billing has been identified and corrected accordingly

##### Affected line items

Receivables from exchange transactions	148,658
Accumulated surplus (deficit)	4,332,271
Receivables from non-exchange transactions	(883,268)
Rental of facilities and equipment	(311,396)
Debt Impairment	(3,286,266)

#### Error 3:

##### PPE

The property plant and equipment registers have been reworked, calculation formula errors has been identified and corrected accordingly.

##### Affected line Items

Property, plant and equipment	19,565,881
Accumulated surplus (deficit)	(21,683,404)
Impairment	1,205,500
Depreciation	827,556

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#### 44. Prior-year adjustments (continued)

##### Error 4:

###### SARS Remission

Sars wrote off prior year interest and penalties, after a remission was lodged

###### Affected line items

Payables from exchange transactions	1,318,657
Accumulated surplus (deficit)	(251,598)
Finance costs	18,915
VAT	(1,085,975)

##### Error 5:

###### Commissions Received

With reconciliation of salaries a difference was noted and corrected accordingly

###### Affected line items

Payables from exchange transactions	258,682
Commissions received	(228,006)
VAT	(30,676)

##### Error 6:

###### Landfill Site

An updated reconciliation has been performed and prior period formula errors were identified on the previous reconciliation

###### Affected line items

Property, plant and equipment	9,753,777
Accumulated surplus (deficit)	(8,018,632)
Depreciation, amortisation and impairments	(1,735,145)

##### Error 7:

###### Cash And Cash

Additional statements have been received and been accounted for accordingly

###### Affected line items

Accumulated surplus (deficit)	7,066
Cash and cash equivalents	(6,995)
Interest received	(71)

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#### 44. Prior-year adjustments (continued)

##### Error 8:

##### Eskom

Revenue was identified in the current year that relates to prior year

##### Affected line items

Bulk Purchases	20,037
Payables from exchange transactions	560,189
Service charges	(583,232)
VAT	3,006

##### Error 9:

##### Retentions

Work in progress reconciliation was performed and retentions have been corrected

##### Affected line items

Property, plant and equipment	2,219,869
Payables from exchange transactions	(2,554,539)
VAT	334,670

##### Error 10:

##### Department of Water and Sanitation

Invoices were received from Department of Water and Sanitation after year end and was accounted for in the correct financial year

##### Affected line items

Bulk Purchases	2,634,705
Payables from exchange transactions	(3,293,008)
Accumulated surplus (deficit)	233,224
VAT	425,079

#### Fruitless and wasteful expenditure

Opening balance	35,235,944	35,217,029
Adjustments made	-	18,915
<b>Restated opening balance</b>	<b>35,235,944</b>	<b>35,235,944</b>

Adjustment made to opening balance of fruitless and wasteful expenditure is due to an omission of fruitless and wasteful expenditure of R18,915 made in the prior year

#### 45. Comparative figures

Certain comparative figures have been reclassified.

The effects of the restatement are as follows:

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### 45. Comparative figures (continued)

Commitments have been restated from R 16 015 183 to R15 981 493 (Error in 2022, -R33 690), the restatement was due to contact values being updated to agree to actual contract appointment letter. Errors were identified where the incorrect contract values were recorded in the Work in process register. All projects were reviewed to ensure all amounts agree to the relevant contracts and commitments register.

PAYE and UIF MFMA disclosure have been restated from R760 541 to R399 542 with the error of R360,999, the restatement was due to SARS remission that has been lodged.

Pension and Medical aid deductions MFMA disclosure have been restated from R921,644 to 2,845,381 with the error of R1,923,737, the restatement was due to reconciliations being performed on the statements.

### 46. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Treasury function reports periodically to the municipality's finance committee, that monitors risks and policies implemented to mitigate risk exposures.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2023	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	120,885,880	-	-	-
At 30 June 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	380,270,368	-	-	-

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#### 46. Risk management (continued)

##### Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur financial loss.

Potential concentrations of credit rate risk consist mainly of investments, loans and receivables, trade receivables, other receivables, short-term investment deposits and cash and cash equivalents.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction/ exposure limits, which are included in the municipality's Investment Policy.

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers. Trade receivables are presented net of an allowance for impairment and where appropriate, credit limits are adjusted.

Credit risk pertaining to trade and other receivables is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply.

In the case of customers whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Non-current Receivables and Other Receivables are collectively evaluated annually at reporting date for impairment or discounting. A report on the various categories of customers is drafted to substantiate such evaluation and subsequent impairment / discount, where applicable.

The municipality only deposits with major banks with high quality credit standing.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2023	2021
Receivables from non-exchange transactions	4,849,473	3,465,957
Receivables from exchange transactions	25,811,624	13,726,825
Bank balances	246,119	641,904
Other Financial Assets	361,173	392,300



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#### 46. Risk management (continued)

##### Market risk

##### Interest rate risk

The municipality is exposed to interest rate risk due to the movements in long-term and short term interest rates.

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

The municipality's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings and finance leases are therefore usually at fixed rates.

This risk is managed on an ongoing basis.

##### Cash flow interest rate risk - 2023

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash in current banking institutions	- %	139,269	-	-	-	-
Call investment deposits	3.00 %	106,850	-	-	-	-

##### Cash flow interest rate risk - 2022

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash in current banking institutions	- %	490,746	-	-	-	-
Call investment deposits	3.00 %	151,089	-	-	-	-

##### Price risk

The effect of any price risk in the foreseeable future is regarded as minimal given the fact that amounts receivable from the municipality's customers are levied in terms of the relevant statutes. It is not anticipated that given the nature of the municipality's business that changes in market prices will have a material impact on the trading results of the municipality.

There has been no change, since the previous financial year, to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

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#### 47. Going concern

The municipality incurred a net loss of R29 648 855 during the year ended 30 June 2023. We draw attention to the fact that as of 30 June 2023, the municipality had an accumulated Surplus of R 350,393,119 (2022: R380,041,969). The current liabilities exceeded its current assets by R 352 034 086 (2022: R 347 067 180)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The municipality is experiencing some financial difficulties, indicators are as follows:

1. Suppliers are not paid within the legislative 30 days
2. Employee benefit obligations are unfunded; refer to note 8
3. High levels of Material losses; refer to note 48
4. Slow collection and low recoverability of outstanding consumer accounts
5. Unfavourable financial ratios.
6. Unspent conditional grants being withheld from the Equitable Share allocation
7. The balance owed by the municipality to Department of Water and Sanitation as of 30 June 2022 and 30 June 2023 was R 139 822 992,53 and R 160 643 314,81 respectively.
8. The balance owed by the municipality to Eskom as of 30 June 2022 and 30 June 2023 was R 164 984 779,48 and R 186 161 295,01 respectively.
9. The municipality was unable to pay the employees' salaries for the month of June 2023.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

These events or conditions, along with the continuing operating losses and financial difficulties, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. Phumelela Local Municipality has developed a revenue enhancement strategy which seeks to address the issues that have contributed to the current situation. This strategy takes a holistic approach to the organisation and was presented to and approved by the Phumelela Local Municipality Council. The plan is for various strategies to effect the changes needed for viability and sustainability of the municipality Phumelela Local Municipality will deploy measures to increase revenue collection rates and an increased collection rate and ring fencing of conditional grants and ensuring that conditional grant funding is cash backed

The implementation of this plan will be monitored monthly, with reports on the achievement of the targets set under the pillars to be reported to Council and the Provincial Treasury submitted 14 working days after the end of each month.

The creditors' payment period overall to be improved and ensure that all creditors are paid within 30 days of receipt of invoice. Fixed obligations, including all current payments for bulk electricity and water purchases will be included in the creditors payments and the municipality to resolve its dispute with the Department of Water and Sanitation relating to the billing for raw water extraction which is charged at an incorrect high tariff and this will have an effect of improving the working capital requirements and boost the financial position of the municipality.

Material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

#### 48. Unauthorised expenditure

Opening balance as previously reported	657,281,301	768,759,482
Add: Unauthorised expenditure - current	64,103,081	82,279,129
Add: Unauthorised expenditure - prior period	-	(203,982,838)
Conditional grants non compliance with Dora section 16(1)	8,030,773	10,225,528
<b>Closing balance</b>	<b>729,415,155</b>	<b>657,281,301</b>

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### 49. Fruitless and wasteful expenditure

Opening balance as previously reported	35,217,029	36,515,042
Add: Fruitless and wasteful expenditure identified - current	15,582,902	11,318,083
Less: Amount written off - prior period	-	(12,597,181)
<b>Closing balance</b>	<b>50,799,931</b>	<b>35,235,944</b>

Fruitless and wasteful expenditure is presented inclusive of VAT

### Details of fruitless and wasteful expenditure

#### Details of fruitless and wasteful expenditure

Eskom - Interest	6,810,353	3,199,005
Free State Municipal Provident Fund - Interest	-	261
Auditor General - Interest	379,822	488,009
SARS - Interest & Penalties	715,703	25,047
DWS - Interest	7,483,555	7,531,238
Manna Holdings - Interest	52,867	21,661
Ben Hur - Interest	71	2,253
Hendre Conradie - Interest	-	50,609
De beer - Interest	333	-
Absa Bank - Interest	140,197	-
	<b>15,582,902</b>	<b>11,318,083</b>

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#### 50. Irregular expenditure

Opening balance as previously reported	185,574,115	192,780,134
Add: Irregular expenditure - current	10,646,508	13,053,335
Add: Irregular expenditure - prior period	-	1,231,202
Less: Amount written off - prior period	-	(21,490,556)
<b>Closing balance</b>	<b>196,220,623</b>	<b>185,574,115</b>

Incidents/cases identified/reported in the current year include those listed below:

#### Summary of irregular expenditure

Competitive bidding not invited	3,873,775	8,122,385
Three written quotations not invited	2,972,558	277,684
Declaration of interest not submitted	-	5,884,468
Declaration of interest(MBD 4) forms not completed	1,256,347	-
Quotation not advertised for seven days	2,543,829	-
	<b>10,646,508</b>	<b>14,284,537</b>

#### 51. Material Losses

##### Electricity distributed losses

Units purchased (kWh)	12,390,576	14,405,019
Units lost during distribution (kWh)	4,555,822	6,034,531
Percentage lost during distribution	37.00 %	42.00 %
Cash value	5,869,563	6,981,631

These losses are due to technical losses on the distribution system (transformers, cables, overhead lines), faulty meters, theft and vandalism.

##### Water distributed losses

Mega litres purified	3,910,000	3,910,000
Mega litres lost during distribution	3,028,625	3,247,681
Percentage lost during distribution	77.00 %	83.00 %
Cash value	6,670,895	6,851,136

These losses are due to defective meters, losses on water network (breakage in pipelines and pumps, leaking valves, etc.), evaporation, theft, vandalism and damages due to blind excavations.

#### 52. Additional disclosure in terms of Municipal Finance Management Act

##### Contributions to organised local government

Opening balance	878,881	864,767
Current year subscription / fee	1,054,598	878,881
Amount paid - current year	(250,000)	(864,767)
	<b>1,683,479</b>	<b>878,881</b>

##### Audit fees

Opening balance	5,080,729	7,897,166
Current year subscription / fee	4,737,441	6,547,309
Amount paid - current year	(7,739,113)	(9,363,746)
	<b>2,079,057</b>	<b>5,080,729</b>

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<b>52. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>PAYE and UIF</b>		
Opening balance	399,542	(1,194,146)
Current year subscription / fee - UIF	1,130,965	1,090,662
Current year subscription / fee - PAYE	11,369,493	9,418,268
Current year subscription / fee - SDL	836,490	733,297
Amount paid - current year	(10,943,960)	(9,648,539)
	<b>2,792,530</b>	<b>399,542</b>
<b>Pension and Medical Aid Deductions</b>		
Opening balance	2,845,381	1,421,357
Current year subscription / fee	18,782,995	16,948,862
Amount paid - current year	(14,528,781)	(14,103,481)
Amount paid - previous years	(2,845,381)	(1,421,357)
	<b>4,254,214</b>	<b>2,845,381</b>
<b>VAT</b>		
VAT receivable	46,854,505	43,890,950

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year.

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#### 52. Additional disclosure in terms of Municipal Finance Management Act (continued)

##### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2023:

30 June 2023	Outstanding less than 90 days	Outstanding more than 90 days	Total
JN Klomp	3,674	-	3,674
TJ Qwebu	1,394	10,935	12,329
VP Mahlaba	170	-	170
NJ Mokoena	246	-	246
TR Zwane	2,918	7,573	10,492
LL Molefe	803	82	885
V Thela	2,338	43,179	45,517
SO Magubane	674	16,283	16,958
DA Wessels	214	8,533	8,747
KA Sibeko	2,593	77,943	80,536
NA Mazibuko	1,158	36,931	38,089
BA Motsoeneng	1,267	31,853	33,120
TN Masiteng	1,682	14,043	15,725
	<b>19,132</b>	<b>247,355</b>	<b>266,488</b>

30 June 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
VP Mahlaba	957	916	1,873
TR Zwane	1,773	-	1,773
BA Motsoeneng	1,872	39,678	41,550
TN Masiteng	1,902	25,443	27,345
LL Molefe	215	-	215
SO Magubane	1,032	24,225	25,257
DA Wessels	149	7,810	7,959
	<b>7,900</b>	<b>98,072</b>	<b>105,972</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2023	Highest outstanding amount	Aging (in days)
TJ Qwebu	10,935	360
TR Zwane	7,573	360
LL Molefe	82	120
V Thela	43,179	360
SO Magubane	16,283	360
DA Wessels	8,533	360
KA Sibeko	77,943	360
NA Mazibuko	36,931	360
BA Motsoeneng	31,853	360
TN Masiteng	14,043	360
	<b>247,355</b>	<b>3,360</b>

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<b>52. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
30 June 2022		
	Highest outstanding amount	Aging (in days)
VP Kibido	916	180
NL Motsoeneng	39,678	360
TN Masiteng	25,443	360
SO Magubane	24,225	360
DA Wessels	7,810	360
	<b>98,072</b>	<b>1,620</b>

#### Non-compliance with the Municipal Finance Management Act

##### 53. Deviation from supply chain management regulations

In terms of section 36 of the municipality SCM regulations, any deviations from SCM policy needs to be approved by the accounting officer and noted by Council. The awards listed below have been approved by the accounting officer and noted by Council.

All deviations considered by the accounting officer are processed in terms of the SCM regulations and the municipality's SCM policy. This process entails being assessed by the SCM Bid Adjudication Committee in terms of the stipulated criteria for emergency procurements and circumstances where it is impractical or not possible to follow the official procedure.

Deviation from, and ratification of minor breaches of, the procurement processes

In terms of section 36(2) of the Supply Chain Management Policy approved by Council it is stipulated that bids where the formal procurement processes could not be followed, must be noted in the annual financial statements.

SCM paragraph  
reference

36 (1)(a) i	Dispense with the official procurement processes in an emergency	-	112,910
36 (1)(a) v	Dispense with official procurement processes in any other exceptional case where it is impractical or impossible to follow the official procurement processes.	1,170,240	146,305
<b>Total deviations</b>		<b>1,170,240</b>	<b>259,215</b>

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### 54. Segment information

#### General information

#### Identification of segments

For management purposes, the municipality is organised and operates in five key functional segments. To this end, management monitors the operating results of these segments for the purpose of making decisions about resource allocations and assessment of performance. Revenues and expenditures relating to these segments are allocated at a transactional level.

The five key functional segments comprise of:

- Community Services
- Corporate Services
- Executive & Council
- Finance
- Technical Services

The grouping of these segments is consistent with the functional classification of government activities which considers the nature of the services, the beneficiaries of such services and the fees charged for the services rendered (if any).

Management does not monitor performance geographically as it does not at present have reliable separate financial information for decision making purposes. Processes have been put in place to generate this information at a transaction level and in the most cost effective manner.

#### Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

<b>Reportable segment</b>	<b>Goods and/or services</b>
Community Services	Community and social services, sports recreation and public safety
Corporate Services	Planning and development
Executive & Council	Municipal Governance and Administration
Finance	Administration and financial services
Technical Services	Energy sources, Water management, Waste water management and waste management



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### 54. Segment information (continued)

#### Segment surplus or deficit, assets and liabilities

2023

Revenue	Community Services	Corporate Services	Executive & Council	Finance	Technical Services	Total
Revenue - Rendering of services	-	-	-	-	(46,937,321)	(46,937,321)
Revenue - Rental of facilities and equipment	(692,142)	-	-	(23,360)	-	(715,502)
Revenue - Taxation revenue	-	-	(17,355,346)	(28,644,844)	-	(46,000,190)
Revenue - Transfer revenue	-	-	-	(127,551,334)	(11,117,537)	(138,668,871)
Other income - Other income - (r/flip)	(772,376)	(84,626)	-	(707,559)	(16,751)	(1,581,311)
Revenue - investment (Investment income) - Interest received - investment	-	-	-	(371,765)	(23,430,473)	(23,802,238)
Other income - Commissions received	-	-	-	(217,467)	-	(217,467)
<b>Total segment revenue</b>	<b>(1,464,517)</b>	<b>(84,626)</b>	<b>(17,355,346)</b>	<b>(157,516,330)</b>	<b>(81,502,082)</b>	<b>(257,922,900)</b>
Inventories losses/write-downs	-	-	-	-	-	(214,291)
Actuarial gains/losses	-	-	-	-	-	(434,616)
<b>Total revenue reconciling items</b>	-	-	-	-	-	<b>(648,907)</b>
<b>Entity's revenue</b>	-	-	-	-	-	<b>(258,571,907)</b>
<b>Expenditure</b>	-	-	-	-	-	-
Expenses - Depreciation, amortisation and impairments	420,515	17,676,819	-	1,421,715	15,379,058	34,898,106
Expenses - Employee costs	8,012,615	14,237,362	15,453,720	32,094,852	26,099,428	95,897,977
Expenses - Finance costs	-	-	-	15,582,902	5,468,514	21,051,416
Expenses - General	589,401	24,886,223	6,461,791	19,926,203	74,760,844	126,624,461
<b>Total segment expenditure</b>	<b>9,022,530</b>	<b>56,800,404</b>	<b>21,915,511</b>	<b>69,025,671</b>	<b>121,707,844</b>	<b>278,471,900</b>
Impairment	-	-	-	-	-	9,748,698
<b>Entity's surplus (deficit) for the period</b>	-	-	-	-	-	<b>(29,648,851)</b>

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### 54. Segment information (continued)

	Community Services	Corporate Services	Executive & Council	Finance	Technical Services	Total
<b>Assets</b>						
Current assets - Cash and cash equivalents	-	-	-	246,120	-	246,120
Current assets - Inventories	-	-	-	1,257,151	127,017	1,384,168
Current assets - Receivables from exchange transactions	-	-	(2,216,496)	30,745,136	44,137,488	72,666,128
Current assets - Receivables from non-exchange transactions	-	-	-	4,849,472	-	4,849,472
Non-current assets - Heritage assets	-	-	5,761	-	-	5,761
Non-current assets - Investment property	-	-	-	13,085,276	-	13,085,276
Non-current assets - Property, plant and equipment	52,638,148	80,583,339	-	78,006,663	566,531,040	777,759,190
Non-current assets - Other financial assets	-	-	-	361,173	-	361,173
<b>Total segment assets</b>	<b>52,638,148</b>	<b>80,583,339</b>	<b>(2,210,735)</b>	<b>128,550,991</b>	<b>610,795,545</b>	<b>870,357,288</b>
<b>Liabilities</b>						
Current liabilities - Payables from exchange transactions	-	-	(107,683,709)	(306,255,424)	(3,412,666)	(417,351,798)
Current liabilities - Consumer deposits	-	-	-	(249,437)	-	(249,437)
Current liabilities - Retirement benefit obligation	-	-	-	(434,408)	-	(434,408)
Current liabilities - Unspent conditional grants and receipts	-	-	-	(12,753,080)	(391,250)	(13,144,330)
Non-current liabilities - Employee benefit obligation	-	-	-	(5,422,703)	-	(5,422,703)
Non-current liabilities - Provisions	-	-	-	(83,361,490)	-	(83,361,490)
<b>Total segment liabilities</b>	<b>-</b>	<b>-</b>	<b>(107,683,709)</b>	<b>(408,476,542)</b>	<b>(3,803,916)</b>	<b>(519,964,166)</b>

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### 54. Segment information (continued)

2022

Revenue	Community Services	Corporate Services	Executive & Council	Finance	Technical Services	Total
Revenue - Rendering of services	-	-	-	-	(43,338,446)	(43,338,446)
Revenue - Rental of facilities and equipment	(1,059,177)	-	-	(8,193)	-	(1,067,371)
Revenue - Taxation revenue	-	-	(16,327,656)	-	-	(16,327,656)
Revenue - Transfer revenue	-	-	-	(130,611,687)	(11,807,986)	(142,419,683)
Other income - Other income - (tr. lrp)	(2,207,277)	(82,837)	-	(1,182,949)	(6,599)	(3,479,662)
Revenue - investment (Investment income) - Interest received - investment	-	-	-	(336,575)	(16,792,392)	(17,128,967)
Other income - Commissions received	-	-	-	(228,006)	-	(228,006)
<b>Total segment revenue</b>	<b>(3,266,454)</b>	<b>(82,837)</b>	<b>(16,327,656)</b>	<b>(132,367,421)</b>	<b>(71,945,422)</b>	<b>(223,989,791)</b>
<b>Entity's revenue</b>						<b>(223,989,791)</b>
<b>Expenditure</b>						
Expenses - Depreciation, amortisation and impairments	413,407	17,496,016	-	1,387,963	14,768,606	34,065,992
Expenses - Employee costs	3,506,265	17,084,984	13,580,931	31,005,626	22,643,973	87,821,778
Expenses - Finance costs	-	-	-	11,318,083	3,040,022	14,358,105
Expenses - General	979,804	42,129,218	4,676,030	22,299,372	54,910,791	124,995,215
<b>Total segment expenditure</b>	<b>4,899,476</b>	<b>76,710,218</b>	<b>18,256,961</b>	<b>66,011,044</b>	<b>95,363,392</b>	<b>261,241,090</b>
Inventories losses/write-downs						1,130,026
Actuarial gains/losses						306,193
Impairment						1,716,792
<b>Entity's surplus (deficit) for the period</b>						<b>(40,404,310)</b>

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#### 54. Segment information (continued)

Assets	Community Services	Corporate Services	Executive & Council	Finance	Technical Services	Total
Current assets - Cash and cash equivalents	-	-	-	641,904	-	641,904
Current assets - Inventories	-	-	-	1,128,684	41,193	1,169,877
Current assets - Receivables from exchange transactions	-	-	(2,216,496)	33,277,151	26,557,119	57,617,774
Current assets - Receivables from non-exchange transactions	-	-	-	3,465,957	-	3,465,957
Non-current assets - Heritage assets	-	-	5,761	-	-	5,761
Non-current assets - Investment property	-	-	-	13,401,803	-	13,401,803
Non-current assets - Property, plant and equipment	57,257,108	75,821,664	-	90,678,780	571,706,893	795,464,445
Non-current assets - Other financial assets	-	-	-	392,300	-	392,300
<b>Total segment assets</b>	<b>57,257,108</b>	<b>75,821,664</b>	<b>(2,210,735)</b>	<b>142,986,580</b>	<b>598,305,205</b>	<b>872,159,821</b>
<b>Liabilities</b>						
Current liabilities - Payables from exchange transactions	-	-	(71,951,230)	(322,726,162)	(3,412,666)	(398,090,058)
Current liabilities - Consumer deposits	-	-	-	(236,881)	-	(236,881)
Current liabilities - Retirement benefit obligation	-	-	-	(768,313)	-	(768,313)
Current liabilities - Unspent conditional grants and receipts	-	-	-	(10,476,188)	(391,250)	(10,867,438)
Non-current liabilities - Employee benefit obligation	-	-	-	(4,997,251)	-	(4,997,251)
Non-current liabilities - Provisions	-	-	-	(77,157,908)	-	(77,157,908)
<b>Total segment liabilities</b>	<b>-</b>	<b>-</b>	<b>(71,951,230)</b>	<b>(416,362,703)</b>	<b>(3,803,916)</b>	<b>(492,117,849)</b>
<b>Total liabilities as per Statement of financial Position</b>	<b>-</b>	<b>-</b>	<b>(71,951,230)</b>	<b>(416,362,703)</b>	<b>(3,803,916)</b>	<b>(492,117,849)</b>

#### Information about geographical areas

Management does not at present have reliable separate financial information of geographical areas for decision making purposes. Processes are in process of being put in place to generate this information at transaction level and in the most cost effective manner.

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#### 55. Budget differences

##### Material differences between budget and actual amounts

The budget has been prepared on the accrual basis of accounting in accordance with the prescripts of the Municipal budget regulations as well as MFMA budget circulars. In accordance with the Municipal budget regulations, the classification basis the municipality presents its budget is per economic as well as per functional classification (per Vote (Department) and GFS classification). It should be noted that minor budget differences between the basis the budget is prepared (accrual basis and prescripts of NT guidance) and actual financial results (accrual basis in accordance with GRAP) exists, mainly related to technical GRAP adjustments required. These differences are not material and as the basis of preparation is the same (accrual basis) no restatements have been made to the financial information compared to the budgeted amounts, but where found to be material is explained below:

##### Explanation of variances between approved and final budget amounts

The materiality framework of the municipality informs the determining base ranges. The framework outlines all principles and guiding practices to allow management to enforce a consistent application of the framework's guidelines. With regard to reporting, the understandability and transparency to users of the financial statements was a determining factor when deciding on the base %. The determining base was if the line item in the Statement of financial position or Statement of financial performance has more than a 10% deviation or R3,000,000 between the Final Budgeted amount and the Actual reported balance.

The variances identified in the Budget Statement is as follows:

NOTE 1	The decrease was due to illegal purchases of prepaid electricity as more than 90% of the municipality are on prepaid electricity. The budget was based on the projected revenue that would have been received.
NOTE 2	Management budgeted the total rental facilities based on the total amount of flats being leased out, not all flats were occupied hence the budget difference
NOTE 3	No provision was made in the budget for this line item. The prior year audited amount should have been used as the baseline. This was due to weak budgeting processes which will be rectified in the next financial year
NOTE 4	In the prior years, the municipality sold more stands, thus the municipality anticipated an upward trend in sale of stands. This however was not the case in the new financial year, thus the decrease.
NOTE 5	Interest from investments, The municipality had, in the past financial periods witnessed an increase in interest as a result of grants that were received and transferred to short-term deposit accounts, thus the municipality budgeted more, however in the current financial year there was an amount which was withheld from the equitable share, hence the decrease in interest received. Interest from outstanding debts were consolidated for both exchange and non exchange transactions on the budget, although they appear separately in the statement of financial performance.
NOTE 6	The budgeted amount of R15 000 000.00 was incorrectly allocated to public donations on the budget. The municipality anticipated to obtain a bank loan to replace their fleet. The municipality did not budget for the public donations relating to the audit fees paid by National treasury thus the difference
NOTE 7	Interest from outstanding debts were consolidated for both exchange and non exchange transactions on the budget, although they appear separately in the statement of financial performance
NOTE 8	The budget amount used was incorrect. The prior year Fixed asset register should have been used as the baseline for the budget. This was due to weak budgeting processes which will be rectified in the next financial year
NOTE 9	The investment property methodology changed from cost to fair value and this will be implemented in the budget the following financial year
NOTE 10	The budget amount used was incorrect as the bulk purchases reconciliation baseline should have been used. This will be corrected in the next financial year.
NOTE 11	The initial budget's base line used was not in-line with the debt impairment of 2022. This will be corrected in the next financial year.
NOTE 12	The budget amount used was incorrect as the bulk purchases reconciliation baseline should have been used. This will be corrected in the next financial year

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**Notes to the Audited Annual Financial Statements**

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**55. Budget differences (continued)**

- NOTE 13      The underspending is as a result of a portion of equitable which was withheld as the municipality used conditional grants to defray operating expenses, thus the municipality had less money to spend. Furthermore, the municipality implemented cost cutting measures during the year as the cash flow position of the municipality is still in a dire situation which resulted in an underspending for the year
- NOTE 14      This money was already received, this can not be budgeted for as it was unallocated deposits allocated to prescribed revenue in the current year
- NOTE 15      No provision was made in the budget for this line item. This was due to weak budgeting processes which will be rectified in the next financial year
- NOTE 16      No provision was made in the budget for this line item. This was due to weak budgeting processes which will be rectified in the next financial year
- NOTE 17      There were more stock on hand in comparison with the budgeted figure as less stock items used and water stock were appropriately accounted for
- NOTE 18      The budget was not accurately set. Incorrect base for the budget was used, thus the material difference identified. The final audited amount of previous year should have been used as the basis. This was due to weak budgeting processes which will be rectified in the next financial year
- NOTE 19      Receivables were consolidated on the budget from exchange and non exchange, however on the financial statements the receivables were split between the exchange and non exchange transactions
- NOTE 20      The budget amount used was incorrect. The prior year audited figure for Vat receivables should have been used the baseline. This was due to weak budgeting processes which will be rectified in the next financial year
- NOTE 21      The budget was not accurately set. Incorrect base for the budget was used, thus the material difference identified. This was due to weak budgeting processes which will be rectified in the next financial year
- NOTE 22      The investment property methodology changed from cost to fair value and this will be implemented in the budget the following financial year
- NOTE 23      The budget amount used was incorrect. The prior year Fixed asset register should have been used as the baseline for the budget. This was due to weak budgeting processes which will be rectified in the next financial year
- NOTE 24      The variance was due to the increase in billing from Department of Water and Sanitation and also increase in other creditors as the municipality is facing financial constraints.
- NOTE 25      This is due to an incorrect budget process followed, as management should have used the prior year balance as a base line.
- NOTE 26      Funds received from grants were utilised else where due to the financial constraints that the municipality experienced during the current financial year. Management did not budget for unspent conditional grants as they anticipated that all the conditional grants money received would be allocated and utilized to the projects.
- NOTE 27      This is due to an incorrect budget process followed, as management should have used the prior year balance as a base line.
- NOTE 28      The Municipality had anticipated to access a loan, however, Provincial treasury advised management to not take out the loan due to the affordability issues.
- NOTE 29      This is due to an incorrect budget process followed, as management should have used the prior year balance as a base line.

**Changes from the approved budget to the final budget**

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to the annual report.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to the annual report

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#### 56. Accounting by principals and agents

The entity is a party to a principal-agent arrangement(s).

##### Municipality as the principal

###### Distribution of electricity

The municipality entered into an agreement with Eskom to provide the hosting, vending, data management and supplementary support services to the municipality. Eskom distributes the prepaid electricity (by the way of vendors) to third parties and pays a portion of the revenue received over to the municipality. Eskom distributes the conventional electricity to third parties and pays a portion of the revenue received over to the municipality.

No assets of the municipality are under the custodianship of Eskom

###### Fee paid

Commission paid	225,208	241,059
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#### Resource and/or cost implications for the entity if the principal-agent arrangement is terminated

##### Termination of the agreement

Early termination of the agreement by the municipality, will result in the municipality immediately refunding Eskom the outstanding balance of the capital for the installed meters and services rendered within the remaining agreement period. Should the parties fail to agree on the repayment arrangement by the municipality then the municipality should continue to refund Eskom the outstanding balance of the capital for the installed meters rendered by monthly equal instalments until the installed meters are fully repaid or for the remaining agreed period, whichever is the earlier.

No assets of the municipality are being kept as security by Eskom.

In the event of early termination by either party, the municipality will from the date of termination, source its own vendors or enter into separate agreements with the existing Eskom vendors for the continued vending of electricity to the municipal customers.

The municipality will change the supply group code on the meters to ensure that the revenue would be directed to its own bank account.